CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 MARCH 2020

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1. COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

Cipla Quality Chemical Industries Limited
Plot 1 - 7, 1st Ring Road
Luzira Industrial Park
PO Box 34871
Kampala, Uganda

BANKERS

Absa Bank of Uganda Limited
Plot 2, Hannington Road
PO Box 7101
Kampala, Uganda

Standard Chartered Bank (U) Limited
Plot 5, Speke Road
PO Box 7111
Kampala, Uganda

SOLICITORS

K&K Advocates
SRK House
Plot 67, Lugogo Bypass
PO Box 6061
Kampala, Uganda

MMAKS Advocates
3rd Floor, DTB Centre
Plot 17/19, Kampala Road
PO Box 7166
Kampala, Uganda

SECRETARY

Ms. Doreen Pachuto Awanga
Cipla Quality Chemical Industries Ltd
Luzira Industrial Park
PO Box 34871
Kampala, Uganda

AUDITOR

Grant Thornton Certified Public Accountants
Wing B&C, 2nd Floor, Lugogo House
42, Lugogo Bypass,
PO Box 7158
Kampala, Uganda

2. DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 March 2020, which disclose the state of affairs of Cipla Quality Chemical Industries Limited ("the Company").

A. INCORPORATION AND PRINCIPAL ACTIVITY

Cipla Quality Chemical Industries Limited ("the Company") was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited ('QCL'), a private limited company incorporated in the Republic of Uganda and Cipla Limited ('Cipla'), through its wholly owned subsidiary, Meditab Holdings Limited, a limited company incorporated in Mauritius. Cipla subsequently acquired a controlling interest in the Company through its wholly owned subsidiaries, Meditab Holdings Limited and Cipla (EU) which held 51.05% and 11.25% of the Company's shares respectively until September 2018.

The Company converted to a public company on 7 October 2016, and on 17 September 2018, the Company officially listed on the Uganda Securities Exchange, offering 18% of the shareholding to individual and institutional investors in an Initial Public Offering (IPO). During the IPO, Cipla (EU) reduced its shareholding from 11.25% to 0.13% and therefore, Cipla's interest in the Company reduced to 51.18%.

The Company's principal activity is manufacturing and selling of pharmaceutical drugs with emphasis on antiretroviral ('ARVs') and Artemisinin-based Combination Therapy ('ACTs' or anti-malarial drugs).

B. RESULTS FOR THE YEAR

Full details of the financial position, results of operations and cash flows of the Company are set out in the accompanying financial statements.

C. DIVIDEND

The directors do not recommend the payment of a dividend for the financial year ended 31 March 2020 (2019: Nil).

D. DIRECTORS AND OFFICERS

The directors who held office during the year and to the date of this report were:

Name and Nationality	**Designation**
Emmanuel Katongole (Ugandan)	Executive Director (Board Chairperson)
Nevin Bradford (British)	Executive Director (CEO)
George Baguma (Ugandan)	Executive Director
Sam Opio (Ugandan)	Executive Director
Paul Miller (South African)	Non-Executive Director
Dr. Ranjana Pathak (American)	Non-Executive Director
Mark Warwick Daly (South African)	Non-Executive Director
Geena Malhotra (Indian)	Non-Executive Director (Appointed on 27th November, 2019)
Stevens Mwanje (Ugandan)	Non-Executive Director (Appointed on 14th August, 2019)
Nishant Saxena (Indian)	Non-Executive Director (Retired on 14th August, 2019)
Dr. Peter Mugyenyi (Ugandan)	Independent Non-Executive Director
Joseph Baliddawa (Ugandan)	Independent Non-Executive Director
Doreen Awanga (Ugandan)	Company Secretary

2. DIRECTORS' REPORT *(continued)*

E. DIRECTORS' INTEREST IN SHARES

As at 31 March 2020, the following directors held a direct interest in the Company's share capital as reflected in the table below:

Director	Number of shares	%
Mr. Emmanuel Katongole	101,933,042	2.7912
Mr. George William Baguma	101,933,042	2.7912
Mr. Nevin J Bradford	157,000	0.0043
Mr. Stevens Mwanje	19,400	0.0005
	204,042,484	**5.5872**

F. AUDITORS

The auditors, Grant Thornton Certified Public Accountants, have expressed their willingness to continue in office in accordance with section 167 (2) of the Companies Act, 2012.

G. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance which is material to the financial affairs of the company, which has occurred between 31 March 2020 and the date of approval of the financial statements, that has not been otherwise dealt with in the financial statements.

By Order of the Board

COMPANY SECRETARY

June 10, **2020**

3. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act, 2012 requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of the financial affairs of the Company as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Company keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of Cipla Quality Chemical Industries Limited ("the Company"). They are also responsible for safeguarding the assets of the Company.

The directors are ultimately responsible for the internal control of the Company. The directors delegate responsibility for internal control to management. Standards and systems of internal control are designed and implemented by management to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain accountability of the Company's assets. These systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The directors accept responsibility for the financial statements for the year ended 31 March 2020, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2012. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company will not remain a going concern for at least the next twelve months from the date of this statement.

The financial statements on pages 11 to 49, which have been prepared on the going concern basis, were approved by the Board of Directors on June 10, 2020 and signed on its behalf by:

NJ Bradford	
Director	**Director**
10-6 **2020**	10-06- **2020**
Place: Kampala	**Place:** Kampala

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED

Report on the financial statements

Opinion

We have audited the financial statements of Cipla Quality Chemical Industries Limited ("the Company") set out on pages 11 to 49, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cipla Quality Chemical Industries Limited as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of Financial Statements in Uganda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Uganda. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matters

The financial statements of the Company for the year ended 31 March 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 5 July 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement were of most significance in our audit of the financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our report.

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Anil Patel (Indian), Jasmine Shah (Indian), Nilesh Patel (Indian), Yuonusu Musoke (Ugandan)

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REPORT OF THE INDEPENDENT AUDITOR *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories Inventories, stated at USh 70,725,283 thousand as at 31 March 2020, represent the second largest category of assets on the statement of financial position of the Company. There is a significant degree of judgement involved to ascertain that the cost of inventories accurately reflects the manufacturing costs incurred in bringing them to their physical location and condition. This particularly relates to the assessment of direct labour costs incurred, manufacturing overheads to be absorbed and other relevant production costs. In addition, as per the Company's accounting policy, inventories are valued at lower of cost or net realisable value. Thus, management's assessment of percentage of write down for inventories is based on the experience and judgement.	We performed the following audit procedures, among others: - We agreed the cost of raw materials to suppliers' invoices on a sample basis. For work-in-progress, and finished goods, we assessed whether the absorption of fixed production overheads was based on a normal capacity of the production facilities and variable production overheads were absorbed into each unit of production on the basis of the actual use of the production facilities. - We also assessed whether all costs included as inventories comprise costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. In particular, we considered the nature of the overheads absorbed to ascertain whether only directly attributable costs were included. We also considered production levels to ensure inefficiencies were not absorbed. - Discussed with management to understand the methodology used for the write-down of the Company's inventories. We evaluated the methods of measurement and assumptions used with reference to historical performance and current market price. - We also assessed the potential risk for management bias. We tested the mathematical integrity of the value of inventories written down based on the agreed methodology. - We also assessed whether the inventories are valued at lower of cost or net realisable value. We found the methodology has no indication of management bias and is consistently applied with that adopted in prior years.

REPORT OF THE INDEPENDENT AUDITOR *(continued)*

Revenue recognition

The Company's revenue for the year ended 31 March 2020 was USh 192,681,692 thousand with sales to Government of Uganda (represented by National Medical Stores) and the Global Fund to Fight AIDS, Tuberculosis and Malaria ("The Global Fund") contributing 60% and 29% respectively.

Given the significance of revenue as a key performance measures, there is an increased risk of misstatement to meet performance targets. In this regard, revenue has been considered a key audit matter.

- We reviewed the Company's accounting policies, including the criteria for revenue recognition.

- We obtained and reviewed sales contracts held by the entity to understand the covenants, and to identify the performance obligations therein, the transaction price and at which point the revenue should be recognised when a performance obligation has been satisfied.

- On sample basis, assessed the design and operating effectiveness of controls over the sales process.

- Performed substantive audit procedures – by supplementing analytical reviews with test of detail procedures.

Adoption of IFRS 16 Leases

On 1 April 2019, a new accounting standard for IFRS 16 Leases became effective, which requiring operating leases to be on the statement of financial statements except in limited circumstances. The new accounting for leases is considered to be matter of most significance as it requires the application of significant judgment and use of assumptions by management. Significant judgement is required in determining if contract contains lease, discount rate and renewal of the lease term, etc.

The Company has elected to adopt the simplified approach of transition and has not restated comparative information.

On 1 April 2019, the Company recognised a lease liability, being the remaining payme nt, including extensions options where renewal is reasonably certain, discounted using the Company's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding ri ght-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases.

- As IFRS 16 was adopted at the start of the year, we performed audit procedures on the opening balance to gain assurance on the transition from IAS 17. This included evaluating the compliance with transition rules as per IFRS 16 and testing adjustments on transition;

- Reviewed the work performed by the management for development of IFRS 16 model;

- Reviewed and verified the data used by management for development of the model.

- For rent contracts, we verified the lease terms including payment terms, renewal options, etc.

Impairment allowance against trade receivables

The Company recognises a loss allowance for expected credit loss (ECL) on its financial assets measured at amortised cost mainly trade receivables stated at USh 97,820,117 thousand (gross) as at 31 March 2020. The cumulative impairment allowance as at that date is USh 37,482,709 thousand. Because Expected Credit Losses (ECL) model require significant management judgement and assumptions in deriving the impairment allowance and hence we have considered this audit area to be a key audit matter.

IFRS 9's impairment requirements use more forward-looking information to recognised expected credit losses – the expected credit loss (ECL) model. The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Company makes use of a simplified approach in accounting for financial assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. The Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Our audit procedures included understanding and testing of the design and operating effectiveness of the key controls over the following:

- Controls over approving, recording and monitoring of sales and customer credit;
- Controls around identifying impaired trade receivables; and
- The governance process of classification of trade receivables, including the continuous re-assessment of the appropriateness of assumptions used in for determining the impairment allowance.

Our testing of the design and operating effectiveness of the controls provided a basis for us to continue with the planned nature, timing and extent of our detailed audit procedures.

Our procedures to assess management's specific impairment allowances, in response to the risks specific to specific customers included obtaining an understanding of the Company's credit policy and evaluated the processes for identifying impairment indicators and consequently, the classification of the trade receivables.

REPORT OF THE INDEPENDENT AUDITOR'S *(continued)*

Other information

The directors are responsible for the other information on pages 1 to 4. Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2012, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

REPORT OF THE INDEPENDENT AUDITOR'S *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extreme rare circumstances, we determine that a matter may not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Companies Act, 2012 we report to you, based on our audit, that:

(i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of the audit;

(ii) in our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) the Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The Engagement Partner on the audit resulting in this independent auditor's report is CPA Yuonusu Musoke – PO453.

Grant Thornton

Grant Thornton
Certified Public Accountants

June 10, **2020**

Kampala, Uganda

Yuonusu Musoke – PO453
Partner

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	**2020** **UShs'000**	**2019** **UShs'000**
Revenue	*3*	192,681,692	195,136,338
Cost of sales	*4*	(155,736,503)	(141,646,451)
Gross profit		**36,945,189**	**53,489,887**
Other income	*5*	38,507	187,538
General and administrative expenses	*6*	(36,617,171)	(40,923,582)
Impairment allowance on financial assets	*17*	(32,169,969)	(3,041,727)
Operating (loss)/profit		**(31,803,444)**	**9,712,116**
Finance costs and finance income - net	*9*	(3,928,097)	(2,584,096)
(Loss)/profit before tax	*10*	**(35,731,541)**	**7,128,020**
Income tax credit/(expense)	*11(a)*	12,658,678	(342,287)
(Loss)/profit for the year		**(23,072,863)**	**6,785,733**
Other comprehensive income		-	-
Total comprehensive (loss)/income for the year		**(23,072,863)**	**6,785,733**
Basic and diluted (loss)/earnings per share		**(6.32)**	**1.86**

The notes on pages 15 to 49 form an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	2020 UShs'000	2019 UShs'000
Assets			
Non-current assets			
Property, plant, equipment and right-of-use assets	*12*	54,189,768	27,859,821
Capital work-in-progress	*13*	19,279,748	33,550,933
Leasehold property	*14*	-	2,776,233
Intangible assets	*15*	1,358,075	1,738,132
Deferred tax asset	*11(b)*	10,501,984	-
		85,329,575	**65,925,119**
Current assets			
Inventories	*16*	70,725,283	81,221,162
Trade and other receivables	*17*	87,577,600	140,037,976
Current tax receivable	*11(a)*	758,584	-
Cash on hand and at bank	*18*	4,075,600	714,329
		163,137,067	**221,973,467**
Total assets		**248,466,642**	**287,898,586**
Equity and liabilities			
Equity			
Issued capital	*19*	45,648,865	45,648,865
Capital grant	*20*	2,275,000	2,275,000
Retained earnings		97,313,531	120,386,394
		145,237,396	**168,310,259**
Liabilities			
Non-current liabilities			
Deferred tax liability	*11(b)*	-	2,156,694
Lease liabilities	*21(b)*	406,695	-
		406,695	**2,156,694**
Current liabilities			
Lease liabilities	*21(b)*	289,725	-
Trade and other payables	*22*	55,457,879	65,512,755
Bank overdraft	*18*	47,074,947	51,918,878
		102,822,551	**117,431,633**
Total liabilities		**103,229,246**	**119,588,327**
Total equity and liabilities		**248,466,642**	**287,898,586**

The financial statements on pages 11 to 49 were approved by the Board of Directors on June 10, 2020 and signed on its behalf by:

NJ Brady

Director **Director**

Notes on pages 15 to 49 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Issued capital UShs'000	Capital grant UShs'000	Proposed dividends UShs'000	Retained earnings UShs'000	Total UShs'000
At 31 March 2018 - as previously reported	45,648,865	2,275,000	-	126,165,384	174,089,249
Impact of adoption of IFRS 9	-	-	-	(2,066,753)	(2,066,753)
Deferred tax on adoption of IFRS 9	-	-	-	620,026	620,026
At 1 April 2018 - restated	45,648,865	2,275,000	-	124,718,657	172,642,522
Total comprehensive income for the year	-	-	-	-	-
Profit for the year	-	-	-	6,785,733	6,785,733
Other comprehensive income	-	-	-	-	-
Transactions with owners of Company					
Proposed dividend	-	-	11,117,996	(11,117,996)	-
Dividend paid	-	-	(11,117,996)	-	(11,117,996)
At 31 March 2019	**45,648,865**	**2,275,000**	**-**	**120,386,394**	**168,310,259**
At 1 April 2019	45,648,865	2,275,000	-	120,386,394	168,310,259
Total comprehensive income for the year					
Loss for the year	-	-	-	(23,072,863)	(23,072,863)
Other comprehensive income	-	-	-	-	-
At 31 March 2020	**45,648,865**	**2,275,000**	**-**	**97,313,531**	**145,237,396**

Notes on pages 15 to 49 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

	Notes	2020 UShs'000	2019 UShs'000
Operating activities			
(Loss)/profit before tax		(35,731,541)	7,128,020
Adjustment for:			
Impairment allowance	*17*	32,169,969	3,041,727
Depreciation	*12*	6,393,020	4,878,464
Amortisation	*15*	429,368	231,612
Provision for obsolete inventories		1,307,036	533,731
Gain on disposal of property and equipment		(2,730)	(128,768)
Interest expense		3,960,507	1,253,973
Interest income		-	(9,601)
Cash generated from operations		**8,525,629**	**16,929,158**
Less: Interest paid		(3,960,507)	(1,253,973)
Tax paid		(758,584)	-
Changes in working capital			
- in inventories		9,188,843	(44,536,725)
- in trade and other receivables		20,290,407	(50,480,440)
- in trade and other payables		(10,054,876)	29,919,024
Net cash generated from operating activities		**23,230,912**	**(49,422,956)**
Investing activities			
Proceeds from sale of property, plant and equipment		2,730	128,768
Purchase of property, plant and equipment		(3,535,093)	-
Additions to capital work-in-progress	*13*	(11,311,254)	(12,250,490)
Purchase of intangible assets	*15*	(49,311)	(187,693)
Interest received		-	38,983
Maturity of placements with financial institutions		-	11,049,000
Net cash used in investing activities		**(14,892,928)**	**(1,221,432)**
Financing activities			
Dividends paid		-	(11,117,996)
Payment of lease liabilities		(132,782)	-
Net cash used in financing activities		**(132,782)**	**(11,117,996)**
Net change in cash and cash equivalents		8,205,202	(61,762,384)
Cash and cash equivalents at start of year		(51,204,549)	10,557,835
Cash and cash equivalents at end of year	*18*	**(42,999,347)**	**(51,204,549)**

Notes on pages 15 to 49 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. COMPANY INFORMATION

Cipla Quality Chemical Industries Limited ("the Company") was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited an entity incorporated in Uganda and Cipla Limited, an entity incorporated in India ("Cipla") through its wholly owned subsidiary, Meditab Holdings Limited, an entity incorporated in Mauritius ("Meditab") for the manufacture and sale of pharmaceutical drugs with emphasis on ARVs and ACTs. The Company owns a pharmaceutical plant at Luzira Industrial Park.

On 11 November 2013, Cipla increased its effective stake (through Meditab) in the Company from 36.55% to 51.05% by acquiring an additional 14.5% of the Company from QCL. This restructuring made the Company a subsidiary of Meditab which in turn is an indirectly held, wholly owned subsidiary of Cipla Limited. The Company's name was subsequently changed from Quality Chemical Industries Limited to Cipla Quality Chemical Industries Limited effective 24 March 2014.

On 6 August 2015, Cipla acquired an additional 11.25% stake in the Company through its wholly owned subsidiary, Cipla (EU). The effective interest of Cipla in the Company as at 31 March 2018 was 62.3%. The Company converted to a public company on 7 October 2016.

On 17 September 2018, the Company listed 657,179,319 of its shares on the Uganda Securities Exchange (USE) for individual and institutional shareholders. New shareholders held 17.78% of the Company's shareholding as at 31 March 2020. During the IPO, Cipla EU sold off 405,804,411 of its shares, effectively reducing Cipla's interest in the Company to 51%. Capital Works sold off 118,722,734 shares and other shareholders sold off 124,857,341 shares.

The financial statements for the year ended 31 March 2020 were authorized for issue in accordance with a resolution of the Board of Directors on June 10, 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of accounting

The financial statements are prepared under the historical cost convention, except where otherwise stated. The financial statements are presented in thousands of Uganda Shillings (UShs'000), the presentation currency of the Company.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in compliance with the requirements of the Companies Act, 2012.

These accounting policies have been applied consistently throughout the current period and in all periods presented.

For purposes of reporting under the Companies Act, 2012, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

On 1 April 2019, the Company adopted IFRS 16 Leases. IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Company applied the modified retrospective approach and has not restated comparative information for the year ended 31 March 2019 for leases in scope of IFRS 16. Refer note 2(d) below.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgments, estimations and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. The key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting date that could have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are below:

Fair value estimation
Several assets and liabilities of the Company are either measured at fair value or disclosure is made of their fair values. Observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible, but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Allowance for slow moving, damaged and obsolete inventory
The Company reviews its inventory to assess loss on account of obsolescence on a regular basis. In determining whether provision for obsolescence should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is any future saleability of the product and the net realizable value for such product. Accordingly, provision for obsolescence is made where the net realizable value is less than cost based on best estimates by the management, ageing of inventories and historical movement of the inventory.

Useful lives of property, plant, equipment and right-of-use assets
Management assesses the appropriateness of the useful lives and residual values of property, plant and equipment at the end of each reporting period. When the estimated useful life or residual value of an asset differs from the previous estimates, the change is applied prospectively in determination of the depreciation charge.

Deferred income tax assets
Deferred income tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies. The Company considers (i) timing differences that are expected to reverse during the tax holiday period, and are not recognised because they are offset against the government grant; and (ii) timing differences which reverse after the tax holiday period, and should be recognized in the financial statements.

Current income taxes
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing. As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Significant accounting judgements and estimates *(continued)*

Leases

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Company is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments.

Impairment allowance for expected credit losses on trade receivables

The Company uses a provision matrix to calculate expected credit losses (ECL) for trade receivables. The provision rates are based on days past due for grouping of various customer segments that have similar loss patterns. The matrix is initially based on historical observed default rates. The matrix is adjusted with forward looking information. The assessment of the correlation between historical default rates and forecast economic conditions and ECLs is a significant estimate.

The measurement of impairment losses under IFRS 9 across relevant financial assets requires judgments, in particular for the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by the outcome of modelled expected credit losses (ECL) scenarios and the relevant inputs used. The Company has made a number of assumptions in calculating expected credit losses for its various financial assets; the Company has elected to apply a 12-month credit loss to derive expected credit losses on its financial assets. Assumptions are to be reviewed on an annual basis.

Provisions

Provisions are inherently based on assumptions and estimates using the best information available. Management makes estimates for the provisions, based on the historical data available and reassesses them at the end of every reporting period.

Impairment of non-financial assets

The Company reviews its non-financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management makes judgements as to whether there are any conditions that indicate potential impairment of such assets.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) New standards, interpretations and amendments to standards adopted during the year

IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases and introduces a single lessee accounting model.

The effective date of the standard is for years beginning on or after 1 January 2019. The Company has adopted the standard for the first time in the financial statements for the year ended 31 March 2020.

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Company is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments. The average discount rate applied to lease liabilities on the transition date 1 April 2019 was 5.5% for US dollar lease liabilities except for finance lease liabilities in which case the implicit interest rate was applied.

As of 1 April 2019, the right-of-use assets in respect of property leases and lease liability were UShs 3,605,435 thousand and UShs 829,202 thousand respectively (refer note 21). The difference between right-of-use assets and lease liabilities recognised on 1 April 2019 is due to existing prepayments and accruals recognized under IAS 17 as of 31 March 2019 being included in the measurement of the lease liabilities.

Uncertainty over income tax treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the standard is for years beginning on or after 1 January 2019. The Company has adopted the standard for the first time in the financial statements for the year ended 31 March 2020. The impact of the interpretation is not material.

(e) New standards, interpretations and amendments to standards not effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company’s accounting periods beginning on or after 1 January 2020 or later periods:

Standard/ Interpretation		Effective date - Year beginning on or after	Expected impact
IFRS3	• Definition of a business - Amendments to IFRS 3	1 January 2020	Unlikely there will be a material impact
IAS 1	• Presentation of Financial Statements: Disclosure initiative	1 January 2020	Unlikely there will be a material impact
IAS 8	• Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative	1 January 2020	Unlikely there will be a material impact
IFRS 9, IAS 39, IFRS 7	• Interest rate benchmark reform	1 January 2020	Unlikely there will be a material impact
IFRS 17	• IFRS 17 Insurance Contracts	1 January 2021	Unlikely there will be a material impact

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price when the fair value of financial instruments at initial recognition differs from the transaction price.

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Company recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Measurement categories of financial assets and liabilities

The Company classifies all its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:
- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVTPL)

The Company classifies and measures its trading portfolio at FVTPL and also may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

Level 1 financial instruments - Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Company has access to at the measurement date. The Company considers markets as active only if there are enough trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

Level 2 financial instruments - Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Company will classify the instruments as Level 3.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

Determination of fair value *(continued)*

Level 3 financial instruments - Those that include one or more unobservable inputs that are significant to the measurement as whole.

The Company periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Company's financial instruments such as credit risk, own credit and/or funding costs. Therefore, the Company applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments. The Company estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts on itself. The Company evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

Receivables and financial investments

The Company measures receivables and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business model assessment

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective: Considerations are made based on the following criteria:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Company's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

NOTES TO THE FINANCIAL STATEMENTS
2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

Receivables and financial investments *(continued)*

The SPPI test

As a second step of its classification process, the Company assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. ‘Principal’ for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Reclassification of financial assets and liabilities

The Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Company also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Company has transferred the financial asset if, and only if, either:
- The Company has transferred its contractual rights to receive cash flows from the financial asset; or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass–through’ arrangement

Pass-through arrangements are transactions whereby the Company retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:
- The Company has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Company cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Company must remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

Derecognition of financial assets and liabilities *(continued)*

A transfer only qualifies for derecognition if either:
- The Company has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

The Company considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and can exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Company has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Company's continuing involvement, in which case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Company could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Company would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the expected credit loss (ECL) model. Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI. The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. For financial assets for which the Company has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

Classification and measurement of financial liabilities

The Company's financial liabilities include borrowings and trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains and losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(g) Property, plant, equipment and right-of-use assets

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis (prorated over the useful live) at annual rates estimated to write off the carrying values of assets over their expected useful lives.

The annual depreciation rates/life in use are:

Buildings	Lower of 4% and the lease period for buildings on leased land
Motor vehicles	25.0%
Tools and equipment	25.0%
Computers	33.3%
Furniture and fittings	12.5%
Plant and machinery	10.0%
Right-of-use assets	3 – 5 years

Assets in the course of construction (capital work-in-progress) are not depreciated. Upon completion, the accumulated cost is transferred to an appropriate asset category, where it is depreciated according to the policy set out above.

An item of Property, plant, equipment and right-of-use assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition is determined by reference to the asset carrying amount and disposal proceeds and is included in profit or loss in the year the item is derecognised.

Refer items 2(s) below for accounting policy details for right-of-use assets.

(h) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible assets comprise:

- Computer software, which is amortised over its economic useful life of three years; and
- Licences and patents, which are amortised over a period of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets and inventory are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

(j) Inventories

Inventories comprise mainly raw materials, work-in-progress, finished goods, spares and supplies. They are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials: purchase cost on a weighted average basis including transport costs, handling costs, duties and other costs incurred in bringing the inventories to their present location and condition.

- Finished goods and work-in-progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Any write down to net realisable value are recognised in profit or loss in the period it is determined.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Employee benefits

A majority of the Company`s employees are eligible for annual leave. The Company also contributes for its employees to the National Social Security Fund (NSSF). Provisions for annual leave and long service rewards and contributions to NSSF are charged to the income statement as incurred. Any differences between the charge to income and NSSF contributions payable is recorded in the balance sheet under other payables, while separate provisions are made for leave pay and long service awards.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is categorized as an expense accrual.

(l) Tax

Current income tax
Taxation is provided in the statement of comprehensive income on the basis of the results included therein adjusted in accordance with the provisions of the Income Tax Act (Cap. 340). Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date. Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised outside profit or loss is recognised in other comprehensive income. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Tax *(continued)*

Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of goods and services is not recoverable from Uganda Revenue Authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense for the item as applicable; and
- Receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Presentation currency and foreign currency transactions

The financial statements are presented in Ugandan Shillings, which is also the Company's functional currency. Transactions during the year are converted into Uganda Shillings at rates ruling at the transactions dates. Monetary assets and liabilities at the reporting date, which are expressed in foreign currencies, are translated into Uganda Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

(o) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the Company receives non-monetary grants, the asset and that grant are recognised at fair value and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Revenue from contracts with customers

Revenue arises mainly from the sale of agricultural commodities. To determine whether to recognise revenue, the Company follows a 5-step process:

- Identifying a contract with the customer;
- Identifying performance obligations;
- Determining the transaction price;
- Allocating the transaction price to the performance obligations; and
- Recognising revenue when/ as performance obligation(s) are satisfied.

The Company often enters into transactions involving a range of the Company's products and services. In all cases, total transaction price is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price excludes any amounts collected on behalf of third parties.

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Sale of goods

Revenue from the sale of goods is recognised when or as the Company transfers control of the assets to the customer. Invoices for goods or services transferred are due upon receipt by the customer.

When such items are either customized or sold together with significant element of service, the goods and services represent a single combined performance obligation over which control is considered to transfer over time. This is because the combined product is unique to each customer (has no alternative use) and the Company has an enforceable right to payment for the work completed to date. Revenue for these performance obligations is recognised over time as the service is rendered based on estimation of work done. Revenue from the sale of goods is recognised upon passage of title to the customer, which generally coincides with their delivery and acceptance. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(q) Dividend

The Company recognises a liability to make cash distributions to shareholders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the corporate laws in Uganda, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity. The approved dividend is recognised as liability until paid. Interim dividend is charged to equity when paid.

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Fair value measurement

The Company measures financial instruments such as trade receivables, and non-financial assets such as investment properties, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes: -

- Disclosures for valuation methods, significant estimates and assumptions
- Quantitative disclosures of fair value measurement hierarchy
- Property, plant, equipment and right-of-use assets under Cost model
- Financial instruments (including those carried at amortized cost)
- Contingent consideration

NOTES TO THE FINANCIAL STATEMENTS

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 1 April 2019

The Company as a lessee
For any new contracts entered into on or after 1 April 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as ‘a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration’. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company’s incremental borrowing rate.
Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been disclosed separately.

NOTES TO THE FINANCIAL STATEMENTS
2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Leases *(continued)*

Accounting policy applicable before 1April 2019

The Company as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset’s fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

Operating leases

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

3. REVENUE

	2020	2019
	UShs'000	UShs'000
Local sales	167,553,898	141,847,186
Exports	25,127,794	53,289,152
	192,681,692	**195,136,338**

Revenues relate to sale of ARVs, ACTs and Hepatitis B therapies as shown in the table below:

	ACTs UShs'000	ARVs UShs'000	Hepatitis B UShs'000	Credit notes UShs'000	Total UShs'000
Local sales	57,188,083	110,936,489	899,202	(1,469,876)	167,553,898
Export sales	19,082,794	6,045,000	-	-	25,127,794
	76,270,877	**116,981,489**	**899,202**	**(1,469,876)**	**192,681,692**

Local sales are mainly made to Government of Uganda (represented by the National Medical Stores) and other private customers, while exports are mainly made to international donor agencies.

4. COST OF SALES

	2020	2019
	UShs'000	UShs'000
Material costs	119,466,333	103,629,349
Staff costs (note 7)	12,131,907	12,335,389
Depreciation (note 8)	5,286,470	3,766,263
Royalties	4,506,790	8,402,113
Stock write-off	1,711,136	597,529
Other production overheads	12,633,867	12,915,808
	155,736,503	**141,646,451**

5. OTHER INCOME

Sale of scrap	35,777	58,770
Gain on disposal of equipment	2,730	128,768
	38,507	**187,538**

6. GENERAL AND ADMINISTRATIVE EXPENSES

Advertising	5,148,639	5,242,636
Office expenses	2,103,731	1,779,749
Depreciation (note 8)	1,106,550	1,112,201
Amortisation (note 15)	429,368	231,612
Bank charges	356,332	543,527
Staff costs (note 7)	15,496,195	15,347,036
Share listing expenses	491,295	2,509,221
Other administration expenses	11,356,009	14,083,480
Audit fees	129,052	74,120
	36,617,171	**40,923,582**

NOTES TO THE FINANCIAL STATEMENTS

7. STAFF EXPENSES

	2020 UShs'000	2019 UShs'000
Catering expenses	2,021,731	1,696,700
Medical expenses	1,146,099	1,126,802
NSSF contribution	2,072,709	2,004,899
Salaries and wages	21,135,071	19,831,319
Provident fund	127,110	127,075
Staff recruitment costs	174,499	257,561
Provision for bonuses	(957,446)	1,344,678
Staff welfare	1,907,449	1,287,369
Training costs	880	6,022
	27,628,102	**27,682,425**
Staff costs are allocated as follows:		
Cost of sales (note 4)	12,131,907	12,335,389
General and administrative expenses (note 6)	15,496,195	15,347,036
	27,628,102	**27,682,425**

8. AMORTISATION AND DEPRECIATION

	2020	2019
Depreciation*	6,393,020	4,878,464
Amortisation	429,368	231,612
	6,822,388	**5,110,076**
** Depreciation allocated as follows:*		
Cost of sales (note 4)	5,286,470	3,766,263
General and administrative expenses (note 6)	1,106,550	1,112,201
	6,393,020	**4,878,464**

9. FINANCE COSTS AND FINANCE INCOME - NET

	2020	2019
Interest income on bank deposits	-	9,601
Interest expense on bank overdraft	(3,898,391)	(1,253,973)
Interest on finance lease liabilities (note 21(c))	(62,116)	-
Realised foreign exchange gains	2,588,391	1,144,481
Unrealised foreign exchange losses	(2,555,981)	(2,484,205)
	(3,928,097)	**(2,584,096)**

NOTES TO THE FINANCIAL STATEMENTS

10. (LOSS)/PROFIT BEFORE TAX

	2020 UShs'000	2019 UShs'000
(Loss)/profit before tax is after the following charges/(credits):		
Depreciation	6,393,020	4,878,464
Amortisation	429,368	231,612
Auditor's remuneration	129,052	74,120
Gain on disposal of property, plant and equipment	2,730	128,767
Net foreign exchange (gains)/losses	(32,410)	1,339,724

11. TAX

a) Income tax (credit)/expense

Tax is provided for in the financial statements on the basis of the results included therein, adjusted in accordance with the provisions of the Income Tax Act, (Cap 340) less any tax credits and withholding tax recoverable.

	2020 UShs'000	2019 UShs'000
Current income tax charge	-	1,889,724
Deferred income tax credit (note 11(b))	(12,658,678)	(277,739)
Income tax charge:	**(12,658,678)**	**1,611,985**
Less:		
Day 1 impact on adoption of IFRS 9 – charged to equity:	-	620,025
Charge to profit or loss:	**(12,658,678)**	**2,232,010**
Grant received (note 11(c))	-	(1,889,723)
Income tax (credit)/expense recognised	**(12,658,678)**	**342,287**

Reconciliation of tax expense to tax as per accounting profit

The tax on the Company's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020 UShs'000	2019 UShs'000
(Loss)/profit before income tax	(35,731,541)	7,128,020
Tax calculated at the statutory income tax rate of 30%	(10,719,462)	2,138,406
Tax effect of:		
Expenses not deductible for tax purposes	349,798	371,344
Deferred income tax (charge)/credit not recognised	(2,289,014)	(897,765)
Income tax charge before grant received	**(12,658,678)**	**1,611,985**

As at 31 March 2020, the Company had tax receivable amount of UShs 758,584 thousand resulting from provisional income tax payments made during the year. The amount will be offset against future income tax obligations of the Company.

NOTES TO THE FINANCIAL STATEMENTS

11. TAX *(continued)*

b) Deferred tax (asset)/liability

Deferred income tax is calculated on all temporary differences using the liability method at the applicable rate of 30%. The movement on the deferred tax account is as follows:

	2020	2019
	UShs'000	**UShs'000**
At the start of the year	2,156,694	(1,894,570)
Movement for the year	(12,658,678)	(2,848,252)
	(10,501,984)	**(4,742,822)**
Adjusted for:		
Deferred tax credit/(charge) that is expected to reverse	-	6,899,516
Deferred tax (asset)/liability	**(10,501,984)**	**2,156,694**

NOTES TO THE FINANCIAL STATEMENTS

11. TAX (CONTINUED)

b) Deferred income tax (continued)

At 31 March 2020	As at 1 April 2019 UShs'000	Movement for the year (credit to SOCI) UShs'000	As at 31 March 2020 UShs'000
Deferred tax liability/(asset)	**2,156,694**	(12,658,678)	**(10,501,984)**

	As at 1 April 2019 UShs'000	Movement for the year UShs'000	As at 31 March 2020 UShs'000
Accelerated tax depreciation	3,748,154	972,639	4,720,793
Short term timing differences	(1,591,460)	(13,631,317)	(15,222,777)
Net deferred income tax liability/(asset)	**2,156,694**	**(12,658,678)**	**(10,501,984)**

At 31 March 2019	As at 1 April 2018 UShs'000	Movement for the year (credit to SOCI) UShs'000	As at 31 March 2019 UShs'000
Deferred tax liability that is not expected to reverse by 2019	**2,434,433**	**(277,739)**	**2,156,694**

	As at 1 April 2018 UShs'000	Movement for the year UShs'000	As at 31 March 2019 UShs'000	Less: Deferred income tax Liability/(asset) that is expected to reverse by June 2019 UShs'000	Deferred income tax liability that is not expected to reverse by June 2019 UShs'000
Accelerated tax depreciation	3,838,854	6,882	3,845,736	97,582	3,748,154
Short term timing differences	(5,733,424)	(2,855,134)	(8,588,558)	(6,997,098)	(1,591,460)
Net deferred income tax liability	**(1,894,570)**	**(2,848,252)**	**(4,742,822)**	**(6,899,516)**	**2,156,694**

NOTES TO THE FINANCIAL STATEMENTS

11. TAX *(continued)*

Deferred income tax is recognised only to the extent that it is probable that the Company will pay current income tax when the taxable temporary differences reverse or when it is probable that there will be taxable profits against which deductible temporary differences can be utilized.

c) Government grant on current income tax

Effective 1 July 2009, Government of Uganda agreed to pay the Company's current income tax obligations on behalf of the Company for a period of 10 years. Government paid the taxes as assessed by the Company in the tax returns filed in accordance with the Income Tax Act (Cap 340) but was not liable to any liabilities and penalties arising from errors or omissions in the tax returns. This gave the Company the legal right to offset any tax obligations from the grant and the Company had the intention to offset the two. The tax holiday incentive expired on 30 June 2019 and for the 3-months period ended then, the Company had a tax loss that was carried forward.

NOTES TO THE FINANCIAL STATEMENTS

12. PROPERTY, PLANT, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Right-of-use asset	Buildings	Plant & machinery	Furniture & fittings	Motor vehicles	Computers	Tools & equipment	Total
	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000	UShs'000
COST								
At 1 April 2018	**-**	**17,446,869**	**49,829,824**	**1,096,915**	**2,470,217**	**2,010,863**	**1,754,483**	**74,609,171**
Transfer from CWIP	-	-	1,280,980	9,433	12,096	112,989	24,251	1,439,749
Disposals	-	-	(1,318,542)	-	-	-	-	(1,318,542)
At 31 March 2019	**-**	**17,446,869**	**49,792,262**	**1,106,348**	**2,482,313**	**2,123,852**	**1,778,734**	**74,730,378**
At 1 April 2019	**-**	17,446,869	49,792,262	1,106,348	2,482,313	2,123,852	1,778,734	74,730,378
On reclassification	2,776,233	-	-	-	-	-	-	2,776,233
Additions	829,202	2,586,353	53,618	183,812	-	193,440	517,870	4,364,295
Transfer from CWIP	-	8,912,385	14,659,140	85,408	-	328,438	1,597,068	25,582,439
Disposals	-	-	-	(9,912)	(6,181)	-	-	(16,093)
At 31 March 2020	**3,605,435**	**28,945,607**	**64,505,020**	**1,365,656**	**2,476,132**	**2,645,730**	**3,893,672**	**107,437,252**
DEPRECIATION								
At 1 April 2018	-	6,603,552	32,360,743	776,486	1,149,588	1,169,085	1,251,181	43,310,635
Charge for the year	-	696,675	2,904,062	150,698	455,984	505,519	165,526	4,878,464
Disposals	-	-	(1,318,542)	-	-	-	-	(1,318,542)
At 31 March 2019	**-**	**7,300,227**	**33,946,263**	**927,184**	**1,605,572**	**1,674,604**	**1,416,707**	**46,870,557**
At 1 April 2019	-	7,300,227	33,946,263	927,184	1,605,572	1,674,604	1,416,707	46,870,557
Charge for the year	184,270	910,219	4,126,994	113,551	342,708	358,323	356,954	6,393,019
Disposals	-	-	-	(9,911)	(6,181)	-	-	(16,092)
At 31 March 2020	**184,270**	**8,210,446**	**38,073,257**	**1,030,824**	**1,942,099**	**2,032,927**	**1,773,661**	**53,247,484**
NBV								
At 31 March 2020	**3,421,165**	**20,735,161**	**26,431,763**	**334,832**	**534,033**	**612,803**	**2,120,011**	**54,189,768**
At 31 March 2019	**-**	**10,146,642**	**15,845,999**	**179,164**	**876,741**	**449,248**	**362,027**	**27,859,821**

* Addition and reclassifications to right-of-use assets relate to property leases under IFRS 16, which the Company adopted on 1 April 2019. Refer to note 2(d), 2(s), 14 and 21.

NOTES TO THE FINANCIAL STATEMENTS

13. CAPITAL WORK-IN-PROGRESS

	Buildings USh's'000	Plant & machinery UShs'000	Consultancy UShs'000	Computer software UShs'000	Total UShs'000
At 31 March 2018	6,484,011	14,774,078	1,644,274	1,250,664	24,153,027
Additions	4,780,091	5,749,216	-	1,721,183	12,250,490
Transfer to property, plant and equipment	-	(1,439,749)	-	-	(1,439,749)
Transfer to intangibles	-	-	-	(1,412,835)	(1,412,835)
At 31 March 2019	**11,264,102**	**19,083,545**	**1,644,274**	**1,559,012**	**33,550,933**
At 1 April 2019	11,264,102	19,083,545	1,644,274	1,559,012	33,550,933
Additions	1,935,465	9,344,540	-	31,249	11,311,254
Transfer to property, plant and equipment	(8,912,385)	(16,670,054)	-	-	(25,582,439)
At 31 March 2020	**4,287,182**	**11,758,031**	**1,644,274**	**1,590,261**	**19,279,748**

The capital work-in-progress (CWIP) represents the cost of the machinery under installation, consultancy services relating to design fees for phase 2 of the factory and construction costs-to-date of the boundary wall for the Company's additional premises for the Active Pharmaceutical Ingredients (API) plant.

NOTES TO THE FINANCIAL STATEMENTS

14. LEASEHOLD PROPERTY

On 21 December 2005, the company leased land at Luzira Industrial Park from Uganda Investment Authority for an initial period of five years. The lease was subsequently extended to 99 years after notification by the company to the lessor of its intention to renew the lease. The leasehold land was obtained at an initial sum of UShs 2.275 billion (as determined by the valuation done by the Company) including premium and ground rent but excluding additional costs of survey and landscaping of UShs 0.501 billion.

The cost of the lease was waived by Government of Uganda and the valuation of the land was therefore recognised as a capital grant in line with the company's accounting policy disclosed in note 2(s) above. The directors re-assessed the classification of the lease and classified it as a finance lease. The land has not been amortised because the underlying value of the asset appreciates over time rather than depreciates.

Following the adoption of IFRS 16 Leases on 1 April 2019, the leasehold property has been reclassified to property, plant, equipment and right-of-use assets.

15. INTANGIBLE ASSETS

	2020 UShs'000	2019 UShs'000
COST		
At start of year	3,024,175	1,423,646
Additions	49,311	187,694
Transfer from CWIP	-	1,412,835
At end of year	**3,073,486**	**3,024,175**
AMORTISATION		
At start of year	1,286,043	1,054,431
Charge for the year	429,368	231,612
At end of year	**1,715,411**	**1,286,043**
NET CARRYING AMOUNT	**1,358,075**	**1,738,132**

Intangible asset relates to SAP software currently used by the Company for its financial accounting.

16. INVENTORIES

	2020 UShs'000	2019 UShs'000
Raw materials	47,111,830	40,721,392
Finished goods	4,354,828	14,563,742
Work-in-progress	7,798,793	10,231,971
Packing materials	9,333,785	6,744,773
Stocks in transit	2,183,495	8,031,244
Other stocks	1,847,117	1,525,569
	72,629,848	**81,818,691**
Less: provision for obsolete inventories	(1,904,565)	(597,529)
	70,725,283	**81,221,162**

NOTES TO THE FINANCIAL STATEMENTS

17. TRADE AND OTHER RECEIVABLES

	2020 UShs'000	2019 UShs'000
Trade receivables	97,820,117	113,391,254
Less: impairment allowance on trade receivables	(37,482,709)	(5,312,740)
	60,337,408	108,078,514
Advance to supplier	17,720,544	24,939,780
Withholding tax recoverable	355,821	355,822
VAT recoverable	8,591,420	6,245,374
Staff advances	121,511	166,164
Other receivables	172,982	153,650
Prepayments	277,914	98,672
	87,577,600	**140,037,976**

Impairment allowance:		
Opening balance	**5,312,740**	**204,260**
Adoption of IFRS 9 adjustment	-	2,066,753
Impairment charge to profit or loss	32,169,969	3,041,727
Closing balance	**37,482,709**	**5,312,740**

The analysis below shows the credit quality and the maximum exposure to credit risk based on the Company's credit rating system. The amounts have not been included into stages, since the Company has used the simplified approach to assess impairment. The gross trade receivables are graded as follows:

	2020 UShs'000	2019 UShs'000
Grading of receivables		
High grade (0–90 days)	41,262,968	78,278,042
Standard grade (91–365 days)	26,609,638	29,977,768
Individually impaired (Over 365 days)	29,947,511	5,135,444
Grand Total	**97,820,117**	**113,391,254**

The movement in gross trade receivables (including amounts due from related parties) is showed as follows:

	2020 UShs'000	2019 UShs'000
Movement in gross trade receivables		
Opening Balance	113,391,254	68,728,451
Sales during the year:	192,681,692	195,136,338
Repayments	(208,252,829)	(150,473,535)
Closing Balance	**97,820,117**	**113,391,254**

17. TRADE AND OTHER RECEIVABLES *(continued)*

As at 31 March 2020, the aging analysis of trade receivables that are past due was as follows:

	From 61 To 90 days UShs'000	From 91 To 180 days UShs'000	From 181 To 365 days UShs'000	Over 365 days UShs'000	Total UShs'000
Past due but not impaired	111,737	3,477,227	23,132,410	27,153,857	53,875,231
Past due and impaired	-	-	(10,328,852)	(27,153,857)	(37,482,709)
	111,737	**3,477,227**	**12,803,558**	**-**	**16,392,522**

18. CASH AND CASH EQUIVALENTS

	2020 UShs'000	2019 UShs'000
Cash on hand	80,287	24,313
Cash at bank	3,995,313	690,016
Cash on hand and at bank	4,075,600	714,329
Bank overdraft	(47,074,947)	(51,918,878)
	(42,999,347)	**(51,204,549)**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances. The Company has not recognised an impairment allowance on bank balances as at 31 March 2020 (2019: Nil).

The overdraft facility was obtained from Absa Bank Uganda Limited for bridging working capital. The facility has a limit of USD 19.65 million, at an interest rate of 4 per cent above 3 months LIBOR.

19. SHARE CAPITAL

a) Ordinary shares - authorised, issued and fully paid

	2020	2019
Number of shares	3,651,909,200	3,651,909,200
Nominal value per share (UShs)	12.50	12.50
Authorised and issued capital (UShs'000)	45,648,865	45,648,865

On 5 October 2016, the shareholders pursuant to Section 71 of the Companies Act, 2012, Article 45(b) of Table A of the Companies Act, 2012 and Article 20(b) of the Company's Articles of Association, resolved that the par value of each share in the Company be adjusted by way of a share split from the current par value of UShs 5,000 to UShs 12.5 per share and the number of shares be increased accordingly from 9,129,773 to 3,651,909,200 ordinary shares.

19. SHARE CAPITAL *(continued)*

b) Shareholding

The top ten shareholders in the Company are shown in the table below.

	2020	Percentage	2019	Percentage
Meditab Holdings Limited	1,864,299,646	51.05%	1,864,299,646	51.05%
AMISTAD	420,402,713	11.51%	420,402,713	11.51%
Capital Works SSA1	407,152,191	11.15%	407,152,191	11.15%
Government Employees Pension Fund	312,000,000	8.54%	312,000,000	8.54%
NSSF	269,361,386	7.38%	269,361,386	7.38%
Emmanuel Katongole	101,933,042	2.79%	101,933,042	2.79%
Frederick Mutebi Kitaka	101,933,042	2.79%	101,933,042	2.79%
Baguma George William	101,933,042	2.79%	101,933,042	2.79%
Cipla EU Limited	4,871,038	0.13%	4,871,038	0.13%
Yiga Joseph	4,000,000	0.11%	4,000,000	0.11%
Others	64,023,100	1.75%	64,023,100	1.75%
	3,651,909,200	**100%**	**3,651,909,200**	100%

On 13 February 2017, the shareholders of Quality Chemicals Limited resolved to transfer the shareholding of 22.05% in the Company to individual shareholders of the company.

On 19 March 2018, Pathfinder Private Pension transferred its 73,038,184 shares in the Company to AMISTAD. On 17 September 2018, the Company listed 18% of its shares on the Uganda Securities Exchange attracting both institutional and individual shareholders. The top ten shareholders in the Company are shown in the table above.

c) Earnings per share

	2020	2019
(Loss)/profit attributable to ordinary equity holders of the Company (UShs'000)	(23,072,863)	6,785,733
Weighted average number of ordinary shares in issue during the year	3,651,909,200	3,651,909,200
Basic/diluted (loss)/earnings per share	(6.32)	1.86

Diluted earnings per share amounts are calculated by dividing the (loss)/profit attributable to shareholders of the Company by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

20. CAPITAL GRANT

	2020 UShs'000	2019 UShs'000
At 31 March	2,275,000	2,275,000

As stated in note 12 and 14, the capital grant relates to the value of the land that was granted to the Company by Uganda Investment Authority. The directors elected to have it appropriated into a separate reserve under equity.

21. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

	Leasehold land UShs'000	Leased motor vehicles UShs'000	Leased warehouse UShs'000	Total UShs'000
a) Right-of-use assets				
On reclassification	2,776,233	-	-	2,776,233
Additions	-	500,731	328,471	829,202
Depreciation	-	(74,780)	(109,490)	(184,270)
At 31 March 2020	**2,776,233**	**425,951**	**218,981**	**3,421,165**
b) Lease liabilities				
Current	-	177,216	112,509	289,725
Non-current	-	279,161	127,534	406,695
At 31 March 2020	**-**	**456,377**	**240,043**	**696,420**
c) Contractual undiscounted cash flows				
Current	-	188,674	114,060	302,734
Non-current	-	516,158	142,575	658,733
At 31 March 2020	**-**	**704,832**	**256,635**	**961,467**
d) Amount recognized in profit or loss				
Interest on lease liabilities	-	45,950	16,166	62,116

Also refer note 2(d).

22. TRADE AND OTHER PAYABLES

	2020 UShs'000	2019 UShs'000
Trade payables	26,111,359	28,397,753
Accruals	7,445,573	13,997,187
Withholding tax payable	620,505	336,964
Due to related parties (Note 23(a))	21,280,442	22,780,851
	55,457,879	**65,512,755**

NOTES TO THE FINANCIAL STATEMENTS

23. RELATED PARTIES

i) The following are the key related parties:

Name	Nature of relationship
Quality Chemicals Limited, Uganda	Shareholder/Common directorship
Meditab Holdings Limited, Mauritius	Parent company
Meditab Specialties Private Limited, India	Holding Company of Meditab Holdings Limited
Sitec Labs Private Limited, India	Subsidiary of Meditab Specialties Private Limited, India
Cipla Medpro South Africa (Pty) Limited	Subsidiary of Cipla Limited
Cipla Limited, India	Ultimate Holding Company

ii) The value, and nature of transactions with related parties during the year was as follows:

Related party	UShs'000	Nature of transactions
Cipla Limited	12,854,696	• Purchase of inventory raw materials
	3,877,594	• Technical services fees
	6,553,270	• Sale of goods
Sitec Labs	190,165	• Analytical work on raw materials
Quality Chemical Limited	5,684,708	• Sale of ARVs and ACTs
Total transactions with related parties	**29,160,433**	

ii) The following were the balances as at 31 March:

a) Amounts due to / from related party

Due to related party (Note 22)	**2020**	**2019**
Related party	**UShs'000**	**UShs'000**
Cipla Limited[1]	21,255,603	22,780,850
Sitec Labs[2]	24,838	-
	21,280,441	**22,780,850**

1 Relates to purchase of raw materials and technical service fees payable to Cipla Limited. As at 31 March 2020, the liability relating to Cipla Limited amounted to Ushs 21,255 million (2019: Ushs 22,781 million).

2 Relates to pre-shipment laboratory tests for raw materials.

	2020	**2019**
	UShs'000	**UShs'000**
Due from related party		
Related party		
Quality Chemicals Limited	3,512,231	1,819,270
Cipla Medpro South Africa (Pty) Limited	5,936,996	-
Sitec Lab	-	7
Cipla Limited	1,007,163	523,143
	10,456,390	**2,342,420**

Amounts due from related parties relate to sale of finished goods

b) Key management compensation

Short-term employee benefits	4,364,114	6,216,060

The above represents compensation to the resident directors in the form of salaries.

24. CONTINGENT LIABILITIES

The Company is a defendant in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to a significant loss.

25. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Senior management is responsible for developing and monitoring the Company's risk management policies and report regularly to the Board of Directors on their activities.

The Company's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others. The risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Board Audit Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Board Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

The Company's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables and finance lease liabilities.

The main risks arising from the Company's financial instruments are liquidity risk, foreign currency risk and credit risk.The Company has policies for managing financial risks as summarized below:

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases by the Company in currencies other than its functional currency (Uganda Shillings). When the need arises for foreign currency, the Company purchases its requirements in the open market, and any exchange gains or losses are immediately posted to profit or loss. Some of the Company's sales are in US Dollars. The proceeds from US Dollar sales are used to pay for liabilities denominated in US Dollars as much as is practicable. Otherwise, the Company does not engage in currency derivatives or other measures of managing foreign currency risk.

25. FINANCIAL RISK MANAGEMENT *(continued)*

Foreign currency risk *(continued)*

As at 31 March, the Company had the following significant foreign currency positions and the equivalent stated in Uganda Shillings:

At 31 March 2020

	US$	UShs'000
Financial assets		
Bank balances	2,122	8,068
Trade and other receivables	15,389,806	58,512,042
Due from related parties	2,839,993	10,797,655
	18,231,921	**69,317,765**
Financial liabilities		
Trade and other payables	1,940,587	7,378,110
Bank overdraft	12,382,233	47,074,947
Due to related parties	5,819,507	22,125,766
	20,142,327	**76,578,823**
Net position – (Payable)	**(1,910,406)**	**(7,261,058)**

At 31 March 2019

Financial assets		
Bank balances	82,199	304,628
Trade and other receivables	29,965,949	111,048,833
Due from related parties	632,060	2,342,421
	30,680,208	**113,695,882**
Financial liabilities		
Trade and other payables	10,458,971	38,760,945
Bank overdraft	14,009,411	51,918,878
Due to related parties	6,123,312	22,692,996
	30,591,694	**113,372,819**
Net position - Receivables	**88,514**	**323,063**

The analysis below shows the post-tax impact of 5%+/- movement in the foreign exchange on the profitability of the Company:

	2020 UShs'000	2019 UShs'000
+5%	(260,427)	11,307
-5%	246,487	(11,307)

25. FINANCIAL RISK MANAGEMENT *(continued)*

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, other receivables and balances with banks.

The Company manages its credit risk by only trading with creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to minimize the Company's exposure to bad debts. The maximum exposure to credit risk is equivalent to the bank balances and trade and other receivables balance as at the end of the year as indicated below:

	2020 UShs'000	2019 UShs'000
Trade and other receivables	60,909,816	108,232,164
Cash at bank	3,995,313	690,016
	64,905,129	**108,922,180**

The Company's major customers are currently Government of Uganda (GOU), Government of Zambia and other private and Governmental customers. The concentration of credit risk of the Company's major customers in the past three (3) years is as follows:

	2020 UShs'000	2019 UShs'000	2018 UShs'000
Government of Uganda (GOU) – NMS	114,944,930	54,153,992	24,488,056
Global Fund to Fight AIDS, Tuberculosis and Malaria	56,749,170	89,965	8,776,001
Ministry of Health – Republic of Zambia	1,483,018	50,422,188	23,876,504
	173,177,118	**104,666,145**	**57,140,561**

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company currently has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

31 March 2020	Up to 3 months UShs'000	3 to 12 months UShs'000	Above 12 months UShs'000	Total UShs'000
Bank overdraft	-	47,074,947	-	47,074,947
Finance lease liabilities	72,980	216,745	406,695	696,420
Trade and other payables	55,457,879	-	-	55,457,879
	55,530,859	**47,291,692**	**406,695**	**103,229,246**
31 March 2019				
Bank overdraft	-	51,918,878	-	51,918,878
Trade and other payables	65,512,755	-	-	65,512,755
	65,512,755	**51,918,878**	**-**	**117,431,633**

25. FINANCIAL RISK MANAGEMENT *(continued)*

Capital management

Capital includes equity attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust its return on capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2019 and 31 March 2020.

Fair value measurement

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Company determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instruments.

Valuation models

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Company's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date. Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes.

As at 31 March 2020, the Company did not hold any financial assets, or financial liabilities, at fair value. The carrying amounts of the financial assets and liabilities, held at amortised cost on the statement of financial position, approximate their fair values as at that date.

NOTES TO THE FINANCIAL STATEMENTS

26. SUBSEQUENT EVENTS

The directors are not aware of any matter or circumstance which is material to the financial affairs of the company, which has occurred between 31 March 2020 and the date of approval of the financial statements, that has not been otherwise dealt with in the financial statements.

27. GOING CONCERN

The directors consider that the Company has adequate resources to continue operating for the foreseeable future. It is therefore appropriate to adopt the going concern basis in preparing the financial statements. The directors are satisfied that the Company is in a sound financial position and has access to adequate borrowing facilities to meet its foreseeable cash requirements.

Due to the current COVID-19 pandemic, there have been several restrictions imposed by the Governments across the globe on travel, goods movement and transportation considering public health and safety measures. The Company is closely monitoring the impact of the pandemic on all aspects of its business, including how it will impact its customers, employees, vendors and business partners. Management has exercised due care, in concluding on significant accounting judgements and estimates, inter-alia, recoverability of receivables, intangible assets, inventory and based on the information available to date, both internal and external, management is of the view that the pandemic did not adversely affect the Company's financial results as of and for the year ended 31 March 2020.

28. COMPARATIVES

During the current financial year, management considered the presentation basis for which expenses were presented in the statement of profit or loss and other comprehensive income. Whilst historically the statement of profit or loss and other comprehensive income was to be presented on a by nature basis, this basis was not consistently applied which resulted in certain expenditure being erroneously grouped as part of "Other operating expenses", "Administration expenses" and "Staff expenses". Management has disaggregated certain amounts from within these categorizations and reclassified them into "General and administrative expenses" and "Cost of Sales".

The effects of the material reclassifications and the resulting increases/(decreases) to items of the statement of profit or loss are as follows:

	2019 UShs'000
Cost of sales	
Factory staff costs	12,335,389
Depreciation of factory building and machinery	3,766,263
Staff expenses	
Factory staff costs	(12,335,389)
Administrative staff costs	(15,347,036)
Amortisation and depreciation	
Depreciation of factory building and machinery	(3,766,263)
Depreciation - administration	(1,343,813)
General and administrative expenses	
Depreciation - administration	1,343,813
Administrative staff costs	15,347,036
	-