CiplaQCi

ACCESS TO AFFORDABLE QUALITY MEDICINES

Cipla Quality Chemical Industries Limited

ANNUAL REPORT

2020-21

We don't have a strategy, **we have a cause**. We don't have a vision statement, **we have a vision**.

We are proud to present our third annual report showcasing our sustained value creation journey during FY 2020-21.

Contents

We are not sellers of drugs. Not mere manufacturers of medication. **What we make are memories.** Memories that may not have been there to be remembered, had a life not been lived.

We make time too. Time we gladly give to those who have learnt what so many of us have forgotten. **The value of every single day.** The preciousness of every breath, of every heartbeat.

And we make tears. **Tears of thanks for the release from pain. And then there's hope.** The hope parents have for the happiness of their children.

We see a future where good health is expected. Not for the few, but for the many. And we don't have consumers or a target market. **We have Nakato, Edwine, Okello and Sarah.**

And that, that is why we are not a healthcare company. **We want people to live a long and healthy life.**

Some call it human care.

We call it Caring for Life.

Introduction

This annual report contains financial and non-financial information. It provides insights into **our strategy, governance, financial** and **operational performance** to address the needs of our stakeholders and create **long-term value**.

Reporting Period

1 April 2020 - 31 March 2021.

Reporting Guidelines

The Company's financial and statutory information complies with the requirements of the Companies' Act, 2012, International Financial Reporting Standards (IFRS), Uganda Securities Exchange Listing Rules 2021 and other applicable laws.

Responsibility Statement

Our Board acknowledges the contents of this report which are prepared under the guidance of senior management. We believe that this report is a fair representation of the Company's overall financial and operational performance for FY 2020-21.

Audit Opinion

Our statutory auditor Grant Thornton has provided opinion on our financial statements, which can be found on page 68-72 of this annual report.

Feedback

We encourage you to share your insights and feedback on this annual report to address stakeholder concerns and improve our reporting. **Feedback or concerns should be addressed to:** Ms Doreen Awanga at **DPAwanga@ciplaqcil.co.ug**.

Made in Africa, for Africa

Providing quality, affordable medicine to patients

At Cipla Quality Chemical Industries Limited (CiplaQCIL), we are not mere manufacturers of medicine. **What we make are memories.** Memories that may not have been there to be remembered, had a life not been lived. **We make people better and we save lives.**

That's why we don't have a strategy, we have a cause. We don't have a vision statement, we have vision.

As the largest pharmaceutical manufacturer in East Africa and also one of the largest in Sub-Saharan Africa (SSA), CiplaCQIL is one of the few pharmaceutical manufacturers in SSA to operate a World Health Organization (WHO) cGMP compliant facility that manufactures a range of WHO pre-qualified medicines.

CiplaQCIL has been focused on aggressive market expansion in the past few years, and as a result, the company has been approved by national regulatory bodies across numerous African countries. CiplaQCIL is already approved in South Africa by SAPHRA.

Made in Africa, for Africa

Established in Uganda in 2005, CiplaQCIL emerged as the result of a dire national need: at the time, the country was battling to treat HIV/Aids patients. While more than 60% of HIV/AIDS and 80% of malaria cases were reported in Sub-Saharan Africa, the region manufactured only 1% of the medicine required to treat patients. When approached by the Government of Uganda to assist with this problem, Cipla partnered with a local firm, Quality Chemical Industries Ltd (QCL), to manufacture these much-needed drugs in Uganda.

The company has since expanded its portfolio of medicines considerably. CiplaQCIL manufactures the two first-line WHO-recommended therapies for Hepatitis B and the new first-line triple combination ARV therapy.

The company's manufacturing facility operates under stringent standards relating to minimal environmental impact, strict adherence to cGMP, good laboratory standards (GLP) and numerous other international regulatory standards. The facility is approved for supply in 29 countries and currently exports to 12 countries in Africa and 2 in South East Asia.

Growth Opportunities

CiplaQCIL continually strives to produce quality, affordable medicines that will meet the demands of the increasing African population. As a result, CiplaQCIL's manufacturing facility has been expanded to increase production capacity.

In addition to producing medicine to treat malaria, HIV and Hepatitis B, CiplaQCIL is exploring the production of medicine to manage the surge of non-communicable diseases (NCDs) and cancer.

CiplaQCIL has a quality control laboratory with state-of-the-art equipment such as extractors for drawing dangerous solvents off work benches, detectors that check air pressure and alert in case of leakages, conference rooms and training facilities – which was completed in December 2019. This facility has twice the capacity, accommodates more staff and ensures that the company is compliant with all safety and good laboratory practice requirements. The new facility has also helped to increase productivity and improve production timelines.

CiplaQCIL also recently improved its warehouse (which has 3000 sqm space) to increase in-house storage capacity and discontinue the use of third-party warehouses. The warehouse has been operational since January 2019 and has the capacity for 5000 pallets.

In September 2018, following a successful Initial Public Offering, CiplaQCIL shares were listed on the Uganda Securities Exchange for the first time.

Committed to Making a Difference

CiplaQCIL is committed to making the highest quality, affordable, life-saving medicines; because we want people to live a long and healthy life. We see a future where good health is expected - not for the few but for the many. That's why we believe no-one should be denied access to essential medicine. We're not just about making medicine, we're about making a difference.

For more info, visit **ciplaqcil.co.ug**.

Our Guiding Principles

Standards

The plant has been **designed to meet** the world's most stringent regulatory standards.

Mission

To provide **affordable & efficacious medicines** in a sustainable way, in order to improve the quality of life.

Vision

The become **a centre of excellence** in the manufacturing of quality affordable and newer medicines.

Values

Quality, Excellence, Accountability, Teamwork, Integrity, Customer **Focus** and **Innovation**.

CiplaQCIL's goal is **to produce pharmaceutical products of the highest quality** that have **zero environmental impact,** adhere to current **Good Manufacturing Practices (cGMP)** and **Good Laboratory Practices (GLP)**, all consistent with global and regional regulatory standards.

COVID-19 Prevention and Management

The Company has put up a spirited fight towards preventing the spread of COVID-19 at the workplace.

57% of staff have received the 1st **vaccine dose** *(incl. leadership team)*

22% of staff have received the 2nd **vaccine dose** *(AstraZeneca)*

- Enforcing wearing of **masks, shields and PPEs, hand sanitising, daily temperature mapping,** and **social distancing,** with **table separations** at the Canteen.
- **Daily sanitisation** of Company premises, workstations, change rooms, canteen and vehicles.
- Weekly COVID-19 **awareness/prevention communication** through the PA system.
- Providing staff with **transport to and from work.**
- Distribution of **immune boosters and cloth masks** to staff.
- Developed and **implemented work-from-home procedure** for some staff.

The company has acquired the following:

- Oxygen cylinders.
- Table and chair / floor social distancing signage.
- Oxygen concentrators and pulse oximeters.
- Installed tabletop sneeze guard acrylic Plexiglass shields.
- Additional hospital beds for COVID-19 isolation tent.
- Designated vehicle with a driver has been set aside for transportation of COVID-19 patients or suspected cases.


Fumigation during one of the planned shutdowns of the factory.


Oxygen concentrator in the isolation tent.


Social distancing in common areas.


Sneeze guards installed in the cafeteria.

Sustainability Report

The **Aim** of the **Company's Sustainability Program** is to **reduce:**

waste generation

water usage

electricity usage

Initiatives put in place to achieve targets:

waste reduction / reuse

water harvesting

solar energy (security lights)

monitoring of consumption

Achievements for the year as at July 2021:

28.9% **water** reduction

below set target

(6035m^3 used against target of 8489m^3)

66.8% **waste** reduction

below set target

(38.20m^3 generated against target of 115m^3)

At CiplaQCIL, we believe in doing business the right way. We consider the social, economic and environmental impact of our activities including the impact on the sustainability of the business and the resources we rely on.

We remain cognisant of the need to enhance shareholder value through embracing ethical business practices which are part of our policies, operating procedures and company values.

Since we believe that one avenue to earning the trust of our customers and achieving competitive advantage is by conducting business in a responsible manner, we consider numerous social, environmental and economic factors during decision making across all our business operations.

Value Creation

We create value by living our purpose of 'Caring for Life' by creating access to quality and affordable healthcare while at the same time generating value for the society in which we operate. We are also committed to driving sustainable and inclusive economic growth in Uganda and ensuring that our business activities create positive social, economic and environmental (SEE) impacts.

Regulatory Environment

CiplaQCIL complies with stringent regulatory standards and supports regulation that is aimed at improving the quality of products and creating efficiencies in the pharmaceutical industry. We will continue to seek opportunities to contribute to the debate and work with the regulators to address industry issues.

Safety

Occupational Health and Safety (OHS) standards are paramount in CiplaQCIL and are strictly adhered to. It is managed and monitored through Environmental Health and Safety (EHS) policies and procedures. The Company, through its Environment, Health and Safety department ensure a safe and healthy working environment is created for all employees and visitors.

A clean, risk-free environment is maintained. First aid kits with well-trained first aiders are provided in each department, and trained fire marshals are available to support employees in the event of a fire. The company has constituted an EHS central committee, chaired by the CEO with representatives from all departments, which meets monthly to discuss EHS issues across the Company. Factory staff are provided with safety gear to ensure they are well guarded from any injuries or infections. There is strict compliance with health and safety standards as any breach in this regard not only compromises the quality of our products, but also the well-being of our employees.

All premises are marked with clear walkways and crossings. Staff are closely monitored to ensure they comply with all policies implemented.

OHS compliance-monitoring activities like audits (internal and external), walk-through inspections, sampling and analysis, trends and patterns, assessments, permits and certifications among others were undertaken. This is done to determine the effectiveness of the measures in place to maintain a healthy and safe environment for our stakeholders.

Air Quality Assessment:
Air quality monitoring and assessment is an integral part of an effective air quality management system that assesses the extent of pollution with regards to standards and evaluates the effectiveness of emission controls in place. This assessment involved assessing the Particulate Matter (PM) which is a widespread air pollutant, and common proxy indicator for air pollution consisting of a mixture of solid and liquid particles suspended in the air. Through this assessment we were able to create a verifiable record of our air quality and the effectiveness of our controls in minimising air pollution.

Noise impact:
Noise level monitoring was carried out at various sections of the plant to check if they were within the permissible level (85dBA) for a factory/workshop

according to the National Environment (Noise Standards and Control) Regulations, 2003). These findings were crucial in identifying areas where it is necessary to wear ear protection devices to prevent continuous exposure of our employees to high level of sound.

Chimney (smokestack) inspection:
The objective of this inspection was to identify any signs of deterioration or wear and tear due that would affect the effectiveness of some stack in ensuring clean air in the factory.

Hazardous Chemical Exposure Assessment:
This investigation was undertaken to assess the impact of the exposure of hazardous materials on the health of the workers, sources of exposure and the effectiveness of pre-existing controls.

Battery Powered Air Purifying Respirators:
We acquired battery powered air purifying respirators and battery powered kit for some of our hazardous operations which provide total isolation from the hazardous materials for personnel in the factory.

Resource Sustainability

We adopted a resource efficiency for our water, energy and raw materials so as to operate within internationally recommended best practices. We are currently in the process of creating awareness among the staff and collecting benchmark data to help guide us in setting the reduction goals.

Trainings and Awareness:
Several training sessions have been performed to improve awareness among workers. These include, among others, first aid, fire safety, waste and spillage management.

COVID-19 Response

Following the outbreak of COVID-19 in the country, the Company put measures in place to curb the spread of the disease a work. A COVID-19 business continuity plan was put in place to ensure operations were not adversely affected by the pandemic and lockdown measures. These measures included the implementation of a 'work from home' policy for staff, sanitisation of work premises, COVID-19 testing at the workplace, ensuring compliance with social distancing and mask-wearing guidelines, as well as educational sessions about COVID-19 and vaccination against the disease for staff.

Safety Week

In the past year, the Company held a safety week running from 21 - 28 April under the theme 'Learn from disaster and prepare for a safe future'. The safety week was marked by several activities including fun and games that involved active participation of staff in all departments. Awareness about health and safety measures was implemented by means of various activities such as a comprehensive mock drill that included fire and medical evacuation, videos about health and safety at work, a safety walk that involved safety representatives conducting an inspection at the premises as well as educational drama skits on relevant topics.

Quality Management

CiplaQCIL ensures strict compliance with Good Manufacturing Practices (cGMP) and as such, all processes are guided by the key components of the Quality Management System (QMS). Our processes are documented to ensure a uniform way of implementing initiatives or activities regardless of who does it. This ensures the consistent quality and standard of our products. This also ensures business continuity as the processes in place are easy to read and implement. Staff receive training on all operating procedures in place and we regularly monitor compliance with these procedures.

Environment Management

A green environment is maintained. This ensures a clean and healthy environment at the premises and its surroundings. The green environment eliminates dust, improves the air quality and reduces runoff that could lead to siltation of lower catchment of the surroundings.

Annual Environmental Audits are undertaken in line with National Environment Management Authority (NEMA) Regulations as well as regular EHS inspections that monitor adherence to the environmental policies, rules, and regulations.

All equipment and supplies procured and installed at the Company premises comply with the National Environment (Management of Ozone Depleting Substances and Products) Regulations, 2001. All standby generators and equipment installed are equipped with noise reduction capabilities and the noise generated is regularly monitored to ensure compliance with the National Environment (Noise Standard and Control) Regulations, 2003. This ensures limited or no distraction for occupants at our Company premises and the surrounding environment.

The Company's approved and certified Effluent Treatment Plant (ETP) handles both industrial and domestic wastewater generated through our operations. To save energy and water resources, the treated wastewater is often reused for watering the grass and flowers around the premises and this is beneficial to the environment especially during the dry spells. There exists a fully equipped ETP Laboratory to monitor discharge quality and to ensure discharge is within permissible limits. A moving Bed Bio reactor was installed at ETP to improve on wastewater discharge quality.

In compliance with the conditions of approval of wastewater discharge for which a permit is issued, wastewater is sampled monthly to national reference laboratories for comparison of analytical results. All gaseous emissions are regularly monitored to ensure compliance with National Air Quality Standard. Regular ground water quality sampling and analysis is undertaken to monitor the impact of our activities to the surrounding water quality in compliance with the conditions of approval of Wastewater Discharge.

Regular preventive maintenance is conducted on boilers and their component parts such as scrubber to ensure that all emissions are disposed in an environmentally friendly manner.

All fuel dispensing and storage facilities are surrounded with a properly maintained bund wall with oil interceptor to control any water pollution from accidental spills of heavy fuel oils. The facility also has a well-maintained storm water drainage channel to handle storm water in compliance with the conditions of approval of the Petroleum storage permit.

Waste is managed in a manner that is protective of the environment by supporting the reduction and prevention of waste generation, promoting and facilitating the reuse and safe recycling of waste, training and encouraging waste segregation at the source of generation. By contracting locally certified/ approved solid waste handling companies as our partners, we fulfil our responsibility to ensure that all waste is destroyed/disposed in an environmentally sound and friendly manner. Records of waste generations, disposal and destruction are inventoried and analysed periodically.

Through trainings and induction of all new personnel on the EHS policies, regulations, and environmentally sound practices, we ensure all personnel participate and are fully compliant with environmental conservation/ protection practices.

People

CiplaQCIL generates direct and indirect employment and business opportunities for Ugandans in various industries including transport, logistics and domestic procurement among others. This further benefits thousands of people in the communities where we operate.

CiplaQCIL is an equal opportunity employer and does not discriminate on the basis of gender, age, disability, ethnicity or religious grounds. CiplaQCIL employs a multi-skilled workforce with competitive technical and professional skills. Our professional development initiatives ensure that talent, skill and competences are nurtured. Recruitment is merit-based to ensure the organisation's set strategic objectives are achieved.

The Company is cognisant of the role employees play in ensuring the Company remains cost-effective and sustainable and aims at attracting, developing and retaining talented staff to deliver the right results for the Company and country. CiplaQCIL focuses on developing internal capability alongside attracting, developing and retaining critical skills from the market. Employees receive relevant training to empower and enhance their ability to deliver excellent results for the organisation. We also care about the health and well-being of our employees and the Company has put in place various measures to enhance the social wellbeing of its employees.

The Company provides medical care for all employees and their dependents which provides them with access to good healthcare thus promoting health and peace of mind.

Compliance

A key pillar supporting our sustainability is our focus on ensuring that we comply with and meet all existing legal and regulatory obligations. This has been as a result of the development of a robust compliance regulatory framework. Compliance to all regulations was adhered to during the year including, meeting statutory obligations and timelines. There were no penalties and fines issued against the Company during the year and thus no disruptions to the business.

Chairman's Statement

I present to you the Annual Report and Financial Statements of Cipla Quality Chemical Industries Limited (CiplaQCIL) for the year ended 31 March 2021.

by Emmanuel Katongole

This financial year was was one of the most challenging with the outbreak of COVID-19 which disrupted our lives. The impact of measures put in place to contain the spread of the virus affected the way we live and the way we do business. Most importantly, the pandemic reinforced the importance of a strong healthcare system.

The Company remained resilient despite the difficult operating environment and made some strides to ensure its sustainability. Many employees at CiplaQCIL continued to work in our factory, ensuring the continued supply of our medicines to patients. I am grateful to them and all those who worked so hard to ensure the safety of our places of work and the wellbeing of employees. We are happy to report that the pandemic has not adversely affected our projected performance. The Board and Management are continually monitoring the situation to reduce the negative impact of the crisis.

Business Overview

The Company is still facing tough economic conditions. These challenges reinforce our resolve to continue working towards the Company's vision. The Board and Management are working towards reversing this situation and we are confident that the measures put in place will upon coming to fruition turn around the Company performance.

We implemented our diversification strategy aimed at boosting the company's sales growth by expanding its product breadth while tapping into new business opportunities in the private market.

The Company also secured approvals from ECOWAS, the grouping of 15 West African countries for Anti-Malarial Medicine - Lumartem and Anti-Retroviral - TLD and TLE 600. These includes markets like Coté d'Ivoire, Senegal, DRC, Nigeria and Ghana. Whilst regulatory approval of the Anti-Malaria medicines had already been granted in Nigeria, the addition of DRC means we now have approval in all the top African malaria treatment markets. Approval was also received from ZAZIBONA for Anti-Retroviral TLD. ZAZIBONA covers 11 Southern African markets including South Africa, Zambia, Malawi, Namibia, Botswana, Mauritius and Zimbabwe. This provides an opportunity for the Company to bid for and compete for business in the respective countries. We also launched 3 new products, particularly, Anti-Retroviral TLE 400 and TLD SA, and Hydroxychloroquine.

While it is disappointing that this has not yet translated into improved shareholder returns, this, combined with meaningful improvements to operating performance, provide significant opportunity to create value for shareholders. The progress made reinforces the Board's confidence in the direction of the Company.

We are also in the later stages of negotiations that will see the Company begin the production of medicines for the treatment of cancer and sickle cell. The Board is confident that with the recently completed quality control laboratory unit, there is sufficient quality testing capacity to enable the Company meet its growth targets.

Governance

Good governance is an important part of the Company's success and we continue to embrace best practice principles of corporate governance and strive to ensure compliance with all laws and regulations. The Board is committed to ensuring that the long-term interests of stakeholders are protected. In this regard, it performed its oversight role to ensure transparency and accountability.

An important part of our approach to governing our stakeholder relationships is to ensure that our shareholder views are heard and fully considered. The COVID-19 pandemic has affected our ability to have one-on-one interactions with shareholders at the AGM. However, the virtual AGM has ensured continued accountability and has provided shareholders with an opportunity to make critical decisions that ensure the company's governance and operations continued being implemented amidst the challenging times.

Sustainability

As a business we measure our success not only by our profitability, but also by the impact we have on our environment and the community. We therefore remain committed to ensuring compliance with approved standards. Our plant adheres to local and international regulatory standards, current Good Manufacturing Practices (cGMP) and Good Laboratory Practices (GLP). This ensures quality of our products and their efficiency. We believe that doing business the right way is pivotal to ensuring business sustainability.

By delivering on our purpose, the greatest contribution we make is to improve the health of people around the world. In the past financial year, our site capacity utilisation was above 80% and we delivered 1 billion tablets of medicines.

We make a positive contribution to the communities in which we operate. We also consider the social, economic and environmental impact of our actions. Our role in the improvement of the social-economic situation in our country and the communities in which we operate is at the very core of our own long-term commercial success. Currently, we employ 320 employees directly and over 150 indirectly. We work directly with a range of suppliers and pay a significant amount of corporation tax and other business and employment-related taxes.

Stakeholder Engagement

We continuously engaged our stakeholders with a view to address stakeholder concerns, exploring new market opportunities and obtaining their support for our initiatives. We shall continue to engage all our stakeholders as we believe their support and confidence is key to the success of our Company.

We will also continually create avenues for regular and constructive dialogue with our shareholders to align their interests with the Company objectives and to create shared value.

Future Outlook

We hope to reap from the investments we made in the past financial year, particularly the acquisition of the private market business and the acquired registration in the ECOWAS and ZAZIBONA regions. We also expect to further increase our product portfolio by launching additional products into the market and undertaking more technology transfers to enable us to manufacture more products.

We are optimistic that the Company will turn around. Our focus is to ensure that the business weathers this storm and also meets the needs of its stakeholders, particularly our customers and shareholders. This will not be a smooth journey given the existing economic challenges. Nevertheless, we are confident that with commitment to our strategy, mission and vision, our performance in future years will be much better.

We will continue to collaborate with our regulators and the Government to ensure that we play our role in fighting the COVID-19 pandemic and rebuilding the Ugandan economy. During the year, we supplied a vital lifesaving drug "remdesivir" for the management of COVID-19 patients. We hope to leverage on our global partnership with Cipla India to develop regimens that prevent or provide relief to COVID-19 patients.

Conclusion

On behalf of the Board of Directors, I extend my sincere gratitude to the shareholders for their continued trust and support. As a Board, we are confident that the business will turn around and prosper. I wish to thank the Government of Uganda, our regulators, customers, partners and any other stakeholders for their unending support.

I also extend my sincere gratitude to the management and staff for their hard work and dedication. Together we shall become a center of excellence in manufacturing of quality, affordable and newer medicines. We look forward to turning this Company around to ensure long-term shareholder value and sustainability of our business.

Finally, I express my gratitude to my colleagues on the Board for their diligence, leadership and guidance. We believe that if we remain committed to our purpose 'Caring for Life', we shall build a business that will provide value to stakeholders and play a pivotal role in ensuring access to effective and affordable medicine.

Emmanuel Katongole

Chairman of CiplaQCIL

Chief Executive Officer's Report

by Nevin Bradford

Dear Shareholder,

On behalf of your Board I am pleased to present your Company's 2020-21 Annual Report which highlights the **performance and the key developments** in our Company during the year in fulfilling its mission to **deliver quality affordable medicines – *made in Africa* – to African patients.**

2020-21 has been a challenging year worldwide across every continent, country, region and community. The challenges presented by the COVID-19 pandemic have not spared your Company. However, the pandemic has also highlighted significant opportunities for your Company to demonstrate its commitments to patients and healthcare providers throughout Africa.

First and foremost, your Company has invested in protecting associates wherever possible from the challenges of the pandemic. Personal protective equipment was provided to all associates as and when required. Immune boosters have been provided to all associates on a regular basis since the pandemic began and we have regularly communicated the importance of strict adherence to the COVID-19 protocols to everyone in the Company. It is to the very great credit of all associates, that not one single day of production was lost in 2020-21 due to the impact of the COVID-19 pandemic.

Throughout 2020-21 the Company was able to deliver on its '**Made in Africa for African patients**" intent, while other suppliers encountered manufacturing and logistical challenges, your Company was able to serve all its customers both in Uganda and throughout Sub-Sahara Africa on time and in full. All supplies of antiretrovirals (ARVs) and anti-malarials to National Medical Stores were delivered on time and in full, guaranteeing Ugandan patients security of supply of these life-saving medicines.

While the COVID-19 pandemic caused significant challenges, it also presented the Company with opportunities.

Hydroxychloroquine was manufactured and delivered in record time to National Medical Stores at the request of the Government of Uganda. The Company was also able to deliver one million treatments of TLD, the first line ARV therapy, to a Southern African country facing a potential out-of-stock issue due to delivery and logistical delays from its previous supplier. This opportunity was worth over UGX 24 billion.

In total exports were **over 400% higher** than FY 2019-20; a clear demonstration of the Company's success in monetising the opportunities thrown up by COVID-19. During the year the Company made its first export sales to Nigeria, Sierra Leone, Niger, Botswana and Malawi. In total the Company exported to **19 markets** in Sub-Saharan Africa, and with the continued expansion of its regulatory approval footprint in Southern Africa and French-speaking countries in Western Africa, is well-poised to drive this export momentum in 2021-22. ARV sales to South Africa through the Company's sister Company, Cipla Medpro, **exceeded UGX 54 billion**.

During the year, the Company delivered on its long-standing commitment to enter the Ugandan retail pharmaceutical market by acquiring the importation and distribution business of the Cipla range of products manufactured in India. While the 20/21 contribution was modest given the acquisition was mid-year, it's anticipated this new revenue stream will contribute to growth in 2021-22 and beyond.

Sales to National Medical Stores through the long-standing supply agreement were stable with significant growth in donor-funded business to the President's Malaria Initiative and the Global Fund.

Sales to the Government of Zambia remained suspended pending resolution of the delayed payments with a final Expected Credit Loss provision being taken of **UGX 9 billion**. All the Zambia overdues are now fully provisioned. In FY 21 **UGX 3.9 billion** was paid by the Government of Zambia. The GoZ remains committed to payment of the agreed overdues and the Company continues to be actively engaged to bring this issue to closure as soon as possible.

I would like to thank all associates for their commitment and dedication during 2020-2021 through trying times to ensure our Company was able to operate safely, deliver on its commitment, improve its performance and most importantly provide affordable, quality health care to patients in Africa.

Nevin Bradford

Chief Executive Officer of CiplaQCIL

Meet the Incoming Chief Executive Officer

Ajay Kumar Pal

1. Who is Ajay Kumar Pal?

I have a passion for learning and creative problem solving. I see myself as an inquisitive thinker. I set ambitious goals and work hard to achieve them.

I bring good experience in technical, operations, commercial and business management. Based on my experience and career spanning 16 years in the pharmaceutical industry across different geographies. I think I am the right man to steer the Company.

I have always worked with a strong professional will and personal humility.

2. How long have you been at CiplaQCIL?

I have been with CiplaQCIL for 18 months now.

3. Why are you the right man to steer CiplaQCIL towards a more positive future?

I am driven by the purpose of 'Caring for Life' and CiplaQCIL's quest of providing quality, affordable medicines for Africa, made in Africa.

4. What's your leadership style?

I see myself as a transformational leader.

5. What's your shareholder engagement plan?

To forge a sense of belonging and engagement, a two-way interaction is absolutely necessary. We will continue with the practice of shareholder newsletters every quarter, along with half year and off-season engagement sessions. We shall proactively seek and shall be open to receiving feedback from shareholders on numerous issues.

6. What improvements will you be looking to make?

The immediate priority of the business is to make it profitable, followed by a focus on sustainable and profitable growth. We are in the process of formulating a strategy which will enable us to achieve our short-term and long-term goals.

To improve business agility, we will strongly focus on ensuring a solid governance framework.

7. What's your growth plan for the business?

We operate in a competitive segment of the pharmaceutical industry and in therapeutic areas with consolidated customers which continuously puts pressure on pricing.

On the other hand, Africa has more than 25 million people living with HIV and we are currently only able to reach a very small portion of these people in terms of affordable treatment.

Hence to increase access of our products to patients, we will adopt a market acceleration growth strategy for our existing portfolio of products. This strategy will be complemented by a product expansion strategy to fuel future growth.

8. Why is CiplaQCIL the right business to invest in?

We have a strong track record, involved in providing solutions to the biggest problems in Africa, such as HIV, malaria and Hepatitis. We have a physical presence in the continent, in line with our 'made in Africa, for Africa' strategy and a state-of-the-art facility with a passionate, dedicated team of more than 350 people. We are the leading local pharmaceutical industry in Eastern and sub-Saharan Africa. I think all of these factors makes it a good choice to invest in.

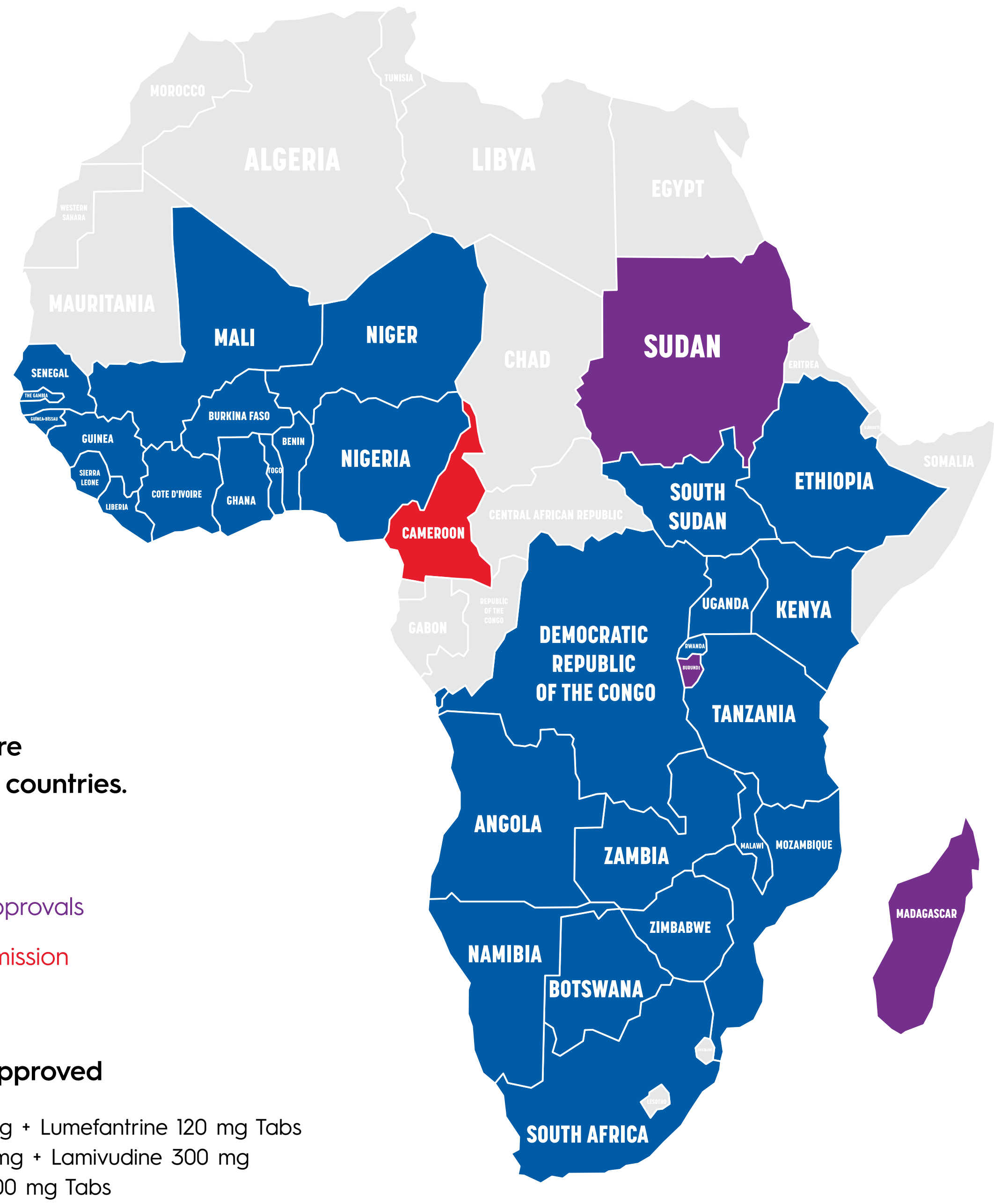
9. What strategies will you be looking to deploy to improve the share value?

Share value is a reflection of market sentiment and there are various factors which influence it. My focus will be on improving the economic performance of the company which will create higher value for shareholders and give them healthy returns. Once we have achieved this, I am sure the share price will automatically reflect positively.

10. Where do you see CiplaQCIL in the next two years?

In two years, I see CiplaQCIL as a very agile company which responds to changes with great speed. We will bring solutions for other disease burdens that are growing significantly in the African continent.

Regulatory Approvals Across the Region



Our products are registered in 31 countries.

- Approved
- Upcoming Approvals
- Planned Submission

Key products approved

1. Artemether 20 mg + Lumefantrine 120 mg Tabs
2. Dolutegravir 50 mg + Lamivudine 300 mg + Tenofovir DF 300 mg Tabs
3. Efavirenz 600 mg + Lamivudine 300 mg + Tenofovir DF 300 mg Tabs

Country	Name of Authorities	Harmonised registrations
Ghana	Food and Drug Authority (FDA-Ghana)	
Nigeria	National Agency for Food and Drug Administration and Control (NAFDAC)	
Sierra Leone	Pharmacy Board of Sierra Leone	
Ethiopia	Food, Medicine and Health Care Administration and Control Authority of Ethiopia (FMHACA)	
Kenya	Pharmacy and Poisons Board (PPB)	
South Sudan	Drug and Food Control Authority (DFCA)	
Burundi	Direction de la pharmacie, du Médicament et des Laboratoires; MoH	
Rwanda	Rwanda Food and Drug Authority (RFDA)	
Uganda	National Drug Authority, Uganda (NDA)	
Tanzania	Tanzania Medicines and Medical Devices Authority (TMDA)	ZAZIBONA
Malawi	Pharmacy and Medicines Regulatory Authority (PMRA)	
South Africa	SAHPRA	
Zimbabwe	Medicines Control Agency Zimbabwe	
Zambia	Zambia Medicines Regulatory Agency	
Botswana	Botswana Medicines Regulatory Authority (BOMRA)	
Namibia	National Medicines Regulatory Council (NMRC)	
DR Congo	Directorate of Pharmacy and Medicine (Direction de la Pharmacie et du Médicament (DPM))	
Mozambique	Departamento Farmacêutico, Ministério da Saúde; MoH	
Ivory Coast	Ministério de la Santé et de l'Hygiene Publique de la Côte Divoire Abidjan, Cote d'ivoire	West Africa Health Organisation
Burkina Faso	Ministere de la Sante	
Guinea Conakry	Ministére de la santé, République de Guinée	
Mali	Ministére de la Santé et des Affaires Sociales Mali	
Giunea Bissau	Ministério da Saúde	
Senegal	Ministére de la Santé et de l'Action sociale	
Benin	Monsieur le Directeur de l'Agence	
Togo	Ministere de la Sante	
Gambia	Medicines Control Agency Gambia	
Cape Verde	Agência de Regulação e Supervisão dos Produtos Farmacêuticos e Alimentares; MoH	
Liberia	Liberia Medicines and Health Products Regulatory Authority; MoH	
Niger	A M. Le Ministre	
Madagascar	Ministére de la Santé Publique	

Product Portfolio

HIV / AIDS

At CiplaQCIL, we stand by our motto that everyone should have access to lifesaving medication. In the crusade against HIV, CiplaQCIL has manufactured medication that has revolutionised HIV treatment, changing it from something which was previously considered a death sentence, to something which can be managed like any other chronic condition.

In 2001, Cipla introduced the **world's first ever recommended 3-in-1 fixed dose combination** (Stavudine + Lamivudine + Nevirapine) to fight AIDS.

It was made available at less than $ 1 per day compared to over $ 12,000 per patient per year prevailing in Uganda and most countries around the world. We have also done pioneering work in paediatric HIV and addressed the needs of every kind of HIV patient, from pregnant mothers to babies and from children to adults. It's not surprising that today millions of patients worldwide are on our antiretrovirals, and with regular therapy they can live for years and lead a near normal life.

We are proud to provide quality and affordable medicines to over 1 million Ugandans living with HIV. It's our commitment to the Ugandans living with HIV. It's our commitment to the Ugandan people to continue trailblazing this crusade and to ensure that HIV treatment is affordable and accessible to all.

Description	Size	Dosage
Dolutegravir Sodium / Lamivudine / Tenofovir Disoproxil Fumarate 50 / 300 / 300 mg	1*30 1*90	tablets
Efavirenz / Lamivudine / Tenofovir Disoproxil Fumarate 600 / 300 / 300 mg	1*30	tablets
Efavirenz 600 mg	1*30	tablets
Tenofovir Disoproxil Fumarate 300 mg	1*30	tablets
Lamivudine / Zidovudine 150 / 300 mg	1*60	tablets
Efavirenz / Lamivudine / Tenofovir Disoproxil Fumarate 400 / 300 / 300 mg	1*30 1*90	tablets

Anti-Malarials

In 2018, the World Health Organisation (WHO) estimated that there were a staggering 228 million malaria cases and 405,000 fatalities in the world. Africa accounted for up to 93% of cases and 94% of malaria fatalities.

According to the WHO, in 2015 Uganda recorded more than 7 million malaria cases and 6100 deaths, some of whom were women and children. In 2009, CiplaQCIL introduced a fixed dose artemisinin-based combination, that's composed of two active ingredients: artermether (20 mg) and lumenfantrine (120 mg). This treatment, recommended for uncomplicated malaria, was made readily available and affordable for pregnant women, children and adults, and has saved many lives.

Description	Size	Dosage
Artemether / Lumefantrine 20 / 120 mg	1*24 1*18 1*12 1*6 30*6 30*18 30*24 30*12	tablets

'Caring for Life' is an integral part of our ethos at CiplaQCIL. We are firmly grounded in the belief that no life should be lost, especially not to a treatable disease.

Hepatitis B

We believe in continued access to the highest quality medicines at affordable prices - whether a disease affects millions or a few hundred. We have embraced this belief and have made it a part of our 'none shall be denied' ideology.

We have played a significant role in the management of Hepatitis B with our quality, affordable medication. Our role in healthcare goes beyond providing the best drugs for diseases to equipping doctors and their patients with the latest information available, aimed at creating greater awareness to fight against the disease.

Description	Size	Dosage
Tenofovir Disoproxil Fumarate 300 mg	1*30	tablets
Entecavir Monohydrate 0.5 / 1 mg	1*10	tablets

Our various medicines have changed the way Hepatitis B is viewed, making life with the disease not just a possibility, but a reality.

Operational Highlights

Technology Transfer and Product Launches

Hydroxychloroquine tablets to manage the COVID-19 pandemic.

Dolutegravir + Lamivudine + Tenofovir DF WHO (pre-qualifation subsequently obtained).

Tenofovir DF 300 mg + Lamivudine 300 mg + Efavirenz 400 mg introduced and supplied to Government of Uganda.

New Technologies / Systems Automations

A **track and trace system** was introduced for one of our customers.

Implemented an **online learning management system** (started in September 2020).

Implemented a **transparent online staff appraisal system** named *SuccessFactors* (introduced in April 2020).

Environmental Health and Safety

A **COVID-19 response policy** was introduced which helped the company to continue operating during these difficult times. New measures were introduced such as a **patient isolation tent**, a **standby ambulance, on-site rapid testing, full-time healthcare support to infected staff** and quick access to vaccination centers.

Quality Control Laboratory

Moved into a **new spacious Laboratory** which **improved operations performance, efficiency and safety** of personnel.

Regulatory Systems / Status

Established a **robust Pharmacovigilance system** in January to **detect, assess and monitor any adverse effects** experienced by patients taking our medicines.

100% reporting compliance of adverse events to the respective regulatory bodies.

Secured product registrations in West Africa (WAHO) and Southern Africa (ZAZIBONA). This increased our regulatory footprint from **16 to 32 countries** across the continent.

Fully integrated regulatory functions to support import and distribution of imported products.

Plant Utilisation and Operation Efficiencies

Increased batch size of key products (Artemether 20 mg / Lumefantrine 120 mg and TLE-400). This resulted in **improved efficiency in manufacturing and packing operations**, but more so, **improved release time and cost of analysis** in the Quality Control Laboratory.

Replacement of alcohol-based coating with aqueous-based coating in Dolutegravir + Lamivudine + Tenofovir DF NMS which **reduced the solvent cost and risk** related with alcohol-based solvents. (Fire hazard).

Increased capacity utilisation from **892 million** tablets in FY 2020 to **1008 million** tablets in FY 2021 (a **12% increase**).

Financial Highlights

Revenue

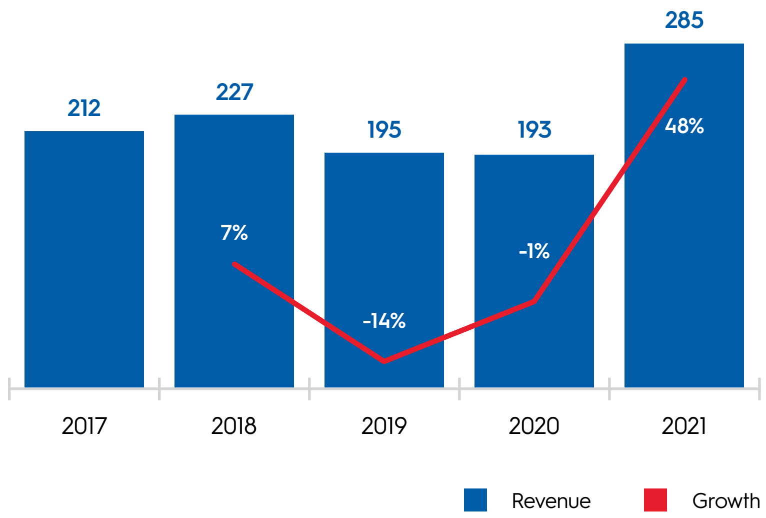
48%

year on year

Growth

Revenue and Growth

Revenue in (UShs billion) vs Growth (%)



Net Profit

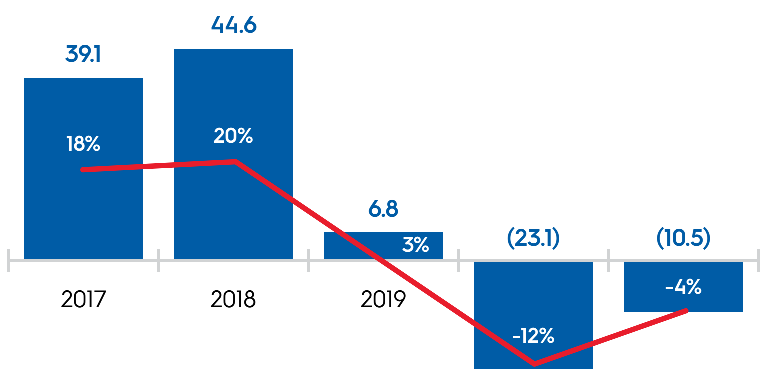
8%

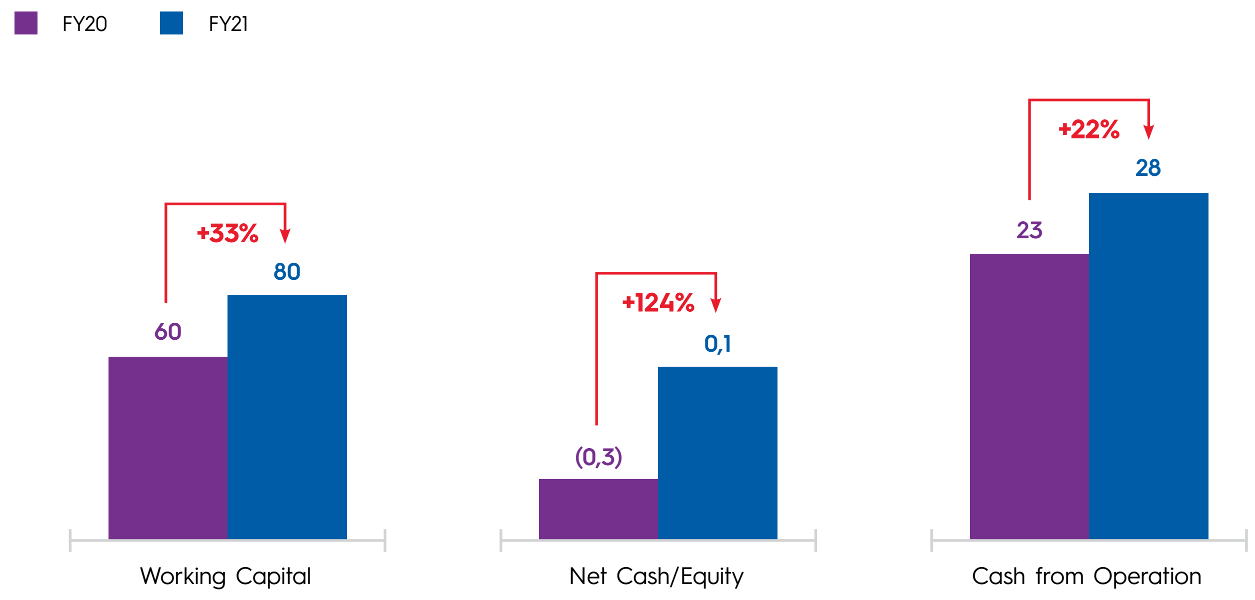
year on year

Margin Growth

Net Profit

5 year PAT (UShs billion) and net margin (%)

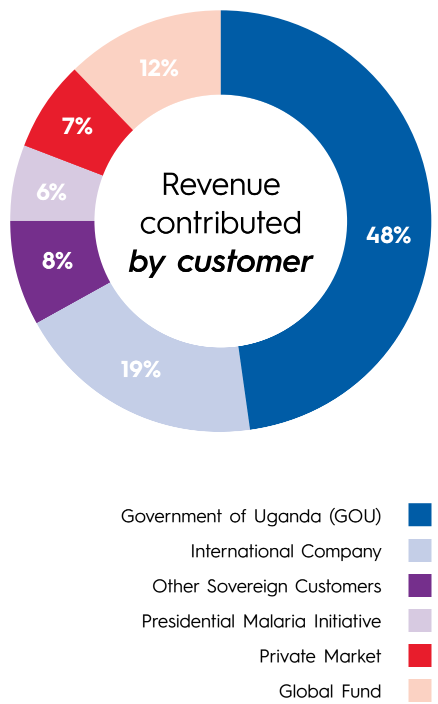




Revenue (UShs billion)

Market-wise

Revenue Analysis



Our People

Human Capital: Steering CiplaQCIL into the future

Caring for People:

Compliance

Human Resources Information Systems:
Paymaster
Success Factors (Goal setting/performance appraisals)
Compliance Tool (Monitor all regulatory/legal requirements)
Biometrics (Time and attendance, canteen management)
E-Signer

Culture

Implemented over 10 staff policies/procedures
Recognition: S/Heroes, Idea Champions, Employee of the Month
Response to COVID-19 Guidelines and SOPs
Observance of EHS, PPEs: zero fatalaties

Capabilities

Work from Home Procedure (maintain MoH SOPs on social distancing)
Skills Matrix
Talent Reviews
Learning Management Systems (LMS)

Careers

Appointment of a **new Chief Executive Officer - Mr Ajay Kumar Pal**
Appointment of a **new Company Pharmacist / Associate Director - Mr John C Kamili**
Promoting Growth through Promotion Cycle
Mr Opio Samuel (ex-Company Pharmacist / Associate Director) turned Politician; **sworn in as a Member of Parliament**
Talent Growth: CSR Education Bursary for **Ms Betty Alisalirwa** from O'Level to University; graduated with honours (Industrial Chemistry); offered employment (see page 38).

Future Focus: Priorities / Areas

Digital transformation

Cost Discipline

Succession planning

Wellness

Compliance

Policies and Procedures Implemented:

Sabbatical Leave

Paternity Leave

Antenatal Leave

Birthday Leave

Exit **Medical**

Time / Attendance

Marriage Gift

Newborn Gift

Work from **Home**

Grievance

Whistleblower Policy

The Year in Photos

13th Anniversary
CiplaQCIL celebrated its 13th Anniversary on 8 October at the manufacturing plant in Luzira. Pictured left are **CEO Mr Nevin Bradford** with the **HR Manager Mr. Harrison Kiggundu, Chief of Operations (COO) Mr Ajay Kumar** and the **Head of Finance Mr Frederick Kakooza**.

H. E Elin Johansen ØstebØ, Norwegian Ambassador to Uganda, on her visit to CilaQCIL. The **Executive Chairman Mr Emmanuel Katongole** honored her with the book **'The Cipla Story since 1935'**.

Private market 1, 2 and 3: CiplaQCIL **CEO Mr Nevin Bradford** and the **Chief Operations Officer Mr Ajay Kumar** inspect the first batch of medicines to be delivered to the private market.

The **Kenyan National Defence Forces** visited the **CiplaQCIL plant** towards the end of 2020.

Turkish Airlines and Cipla Quality Chemicals Industries Ltd. made a donation towards the treatment of **Rebecca Babirye**, a resident of Kamuli district who was burnt with acid by her former lover in June 2019. The company committed to cover the cost of treatment in Turkey, which amounts **US$ 25,000**.

CiplaQCIL for the 1st time acquired a **branded truck** to help **ease logistical issues** related to hired transportation for its products.

The road near the plant was named after the **Cipla Chairman Dr YK Hamied** in honour and appreciation for his ground-breaking humanitarian approach in providing access to quality, affordable healthcare.

CiplaQCIL staff engage in **fire drills** and **First Aid training exercises** to mark **World Safety Week**.

Safety Week 1 & 2:
The **CEO Mr. Nevin Bradford** handing over a donation of road safety equipment to an official from the **Directorate of Traffic and Road safety** (Uganda Police Force).

Corporate Social Responsibility Strategy

CiplaQCIL's core focus is Caring for Life.

We want people to live long, healthy and fulfilling lives.

Malaria, HIV and hepatitis B have ravaged our communities and heavily burdened the health system in Uganda, by placing increased pressure on healthcare professionals and medicine supplies.

CiplaQCIL's Corporate Social Responsibility (CSR) strategy aims to:

- help **reduce the mortality rates** stemming from malaria, HIV and hepatitis B,
- provide ways to **relieve the heavily burdened health systems** in Uganda, and
- ensure **sustainable availability of blood** in our blood banks to save lives.

Integration of CSR with the United Nations Sustainable Development Goals 2030 and Uganda's National Development Plan Vision 2040.

Our strategy aligns with the following United Nations' Sustainable Development Goals:

***3**: Ensure healthy lives and promote wellbeing for all at all ages, and specifically targets sub-goal **3.3**: by 2030 end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases, and combat hepatitis, water-borne diseases and other communicable diseases.*

Our efforts to achieve a healthy population benefits Uganda's National Development Plan (NDP) - Vision 2040 where human capital is regarded as a key resource to propel the country to middle-income status. A strong, fit populace is critical for a sustainable workforce.

SDG 3 specifically targets good health and well-being for all, which contributes to the NDP's target to enhance human capital development. Delivering these targets in turn builds human capacity to drive **SDG 8** targeting **decent work and economic growth** that leads to

3 GOOD HEALTH AND WELL-BEING

8 DECENT WORK AND ECONOMIC GROWTH

11 SUSTAINABLE CITIES AND COMMUNITIES

sustainable cities and communities (SDG 11), which aligns with the NDP's objectives for sustainable production and a secure stable society.

All this can be achieved through;

CSR partnerships

Creating meaningful partnerships to raise the necessary resources to support initiatives geared towards reducing disease burdens and mortality rates caused by malaria, HIV and hepatitis B.

[1] National Population Council. Only 170, 000 Ugandans donate blood. Accessed online: https://npcsec.go.ug/only-170000-ugandans-donate-blood/

The Blood Bank

One such initiative that CiplaQCIL and its partners specifically embarked on with the vision of ensuring sustainable and continuous availability of blood in our hospitals was the construction of Mengo Blood Bank.

The blood bank initiative aligns with Uganda's NDP to develop fundamental infrastructure, as well as SDG 11 to ensure sustainable cities and communities.

The total cost of this project was $ 1,1 million and CiplaQCIL was one of the major contributors towards this development. Currently the blood bank meets 12% of the total national blood requirement, but has the capacity to meet 30% of the total national blood requirement which is approximately 105,000 units of blood annually. This would require 10,000 Ugandans to donate blood every year.

300,000 **units of blood needed** by Uganda **annually**.

230,000 **units of blood currently collected** by Uganda **annually**.

70,000 **deficit units** of blood **yearly**

According to World Health Organization standards.

CiplaQCIL is committed to supporting this worthy cause through sponsorship drives to help expand and equip the Mengo Blood Bank as well as organising blood donation drives. Through these initiatives, we hope to help increase the capacity of the blood bank from **12% to 30%** capacity within the next two years.

Integration of CSR into the business

Malaria

Uganda has the third highest global burden of malaria cases (5%) and ranks eighth in terms of malaria deaths (3%)[2]. It also has the highest proportion of malaria cases in East and Southern Africa.

There is stable, perennial malaria transmission in **95%** of the country.

CiplaQCIL continues to provide access to life-saving anti-malarial medicines to areas with high disease burdens and where access to medication is limited. We avail these vital medicines to partners, who organise medical camps in hard-to-reach or otherwise high-burdened areas.

This initiative by CiplaQCIL is in addition to other government initiatives in the fight against malaria:

- **27m** **mosquito nets distributed** countrywide
- indoor **residual spraying**
- **education** to reduce mortality rates

Our strategy contributes directly to **The New Uganda Malaria Elimination Strategic Plan 2021-2025**, which is a result of coordinated efforts between the National Malaria Control Division (NMCD), the President's Malaria Initiative (PMI), the World Health Organization (WHO), Global Fund and other strategic partners. **This strategy aims to reduce malaria infections by 50%, morbidity by 50% and mortality by 75% by 2025**[3].

[2] Severe Malaria Observatory. Uganda Malaria Facts. Accessed online: https://www.severemalaria.org/countries/uganda. [3] Severe Malaria Observatory. Uganda Malaria Facts. Accessed online: https://www.severemalaria.org/countries/uganda.

Internship Programme

CiplaQCIL runs an internship programme in partnership with public universities across Africa with a bias towards science-related industrial training. Our internships are designed to give students practical experience by exposing them to the world of work and challenging them to solve problems and formulate ideas for helping to improve the business.

CiplaQCIL offers internship opportunities annually to third-year undergraduate students in Uganda.

CiplaQCIL has also opened its doors to sponsor and train secondary school leavers from educational institutions within the community to empower our youth to tap into the opportunities created by government through its National Development Plan.

This will create a productive workforce, and in turn lead to sustainable production, key growth in infrastructure and service delivery in our communities.

Conclusion

Contributing to the socio-economic situation in the communities and the country in which we operate is of utmost importance. It is important that we're not just about manufacturing medicine, but also about helping to make a tangible, sustainable difference in people's lives. As a business we measure our success not only by our profitability, but also by the impact we have on our communities.

Our CSR initiatives promote **increased life expectancy** and **improved wellbeing** which leads to a **healthy productive population** to participate in the economy and elevate the standard of living in Uganda. **We're committed to 'Africa for Africa'.**

Hepatitis B
According to the Uganda Population-based HIV Impact Assessment (UPHIA) 2016–2017 national survey, Hepatitis B infection prevalence among Ugandan adults was 4.3% of the general population[4]. Chronic Hepatitis B can develop into a serious disease resulting in long-term health problems, including liver damage, liver failure, liver cancer, and even death[5].

1,649 — **deaths** related to Hepatitis B **reported** to the Centre for Disease Control and Prevention[6]

80% — **of liver cancers** linked to Hepatitis B reported at Mulago Hospital alone, annually[7].

2% — **liver cancer-related admissions** at Uganda Cancer Institute[8].

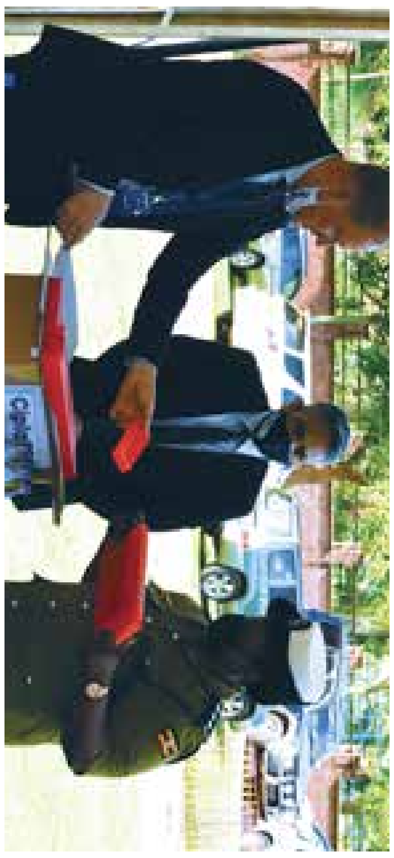
CiplaQCIL actively supports the activities of National Organisation of People Living with Hepatitis B (NOPLHB) and the annual World Hepatitis Day activities organised by the Ministry of Health. CiplaQCIL through its ethos of 'Caring for Life' continues to support all initiatives geared towards creating awareness about Hepatitis B to drive prevention, and also assists those people living with the virus in terms of linking them to the necessary medical care.

[4] Reliefweb. World Hepatitis Day 2018: Press statement on the progress of implementation of Hepatitis B vaccination program in Uganda. Accessed online: https://reliefweb.int/report/uganda/world-hepatitis-day-2018-press-statement-progress-implementation-hepatitis-b. [5] Centres for Disease Control and Prevention. Hepatitis B information. Accessed online: https://www.cdc.gov/hepatitis/hbv/bfaq.htm. [6] Centres for Disease Control and Prevention. Hepatitis B information. Accessed online: https://www.cdc.gov/hepatitis/hbv/bfaq.htm. [7] Reliefweb. World Hepatitis Day 2018: Press statement on the progress of implementation of Hepatitis B vaccination program in Uganda. Accessed online: https://reliefweb.int/report/uganda/world-hepatitis-day-2018-press-statement-progress-implementation-hepatitis-b. [8] Reliefweb. World Hepatitis Day 2018: Press statement on the progress of implementation of Hepatitis B vaccination program in Uganda. Accessed online: https://reliefweb.int/report/uganda/world-hepatitis-day-2018-press-statement-progress-implementation-hepatitis-b.

CiplaQCIL's core focus is **Caring for Life**. We want people to live long, healthy and fulfilling lives.

CiplaQCIL's Corporate Responsibility Strategy aims to contribute to the reduction of mortality rates from malaria, HIV and Hepatitis B, support the heavily burdened health systems of Uganda, and ensure sustainable availability of blood in our blood banks to save lives.

Category	Partners	CiplaQCIL Target	National / Global Goals	Scope	Actions
Blood	NGO Partner Ministry of Health Communities	**Increase capacity of Mengo Blood bank from 12% to 30% of national blood requirement (105,000 units of blood per year).**	SDG 3, 11 NDP	Sustainable blood supply.	Encourage 10,000 Ugandans to donate blood every year. Fundraise to expand and equip the Mengo Blood Bank.
Malaria	NGO Partner Ministry of Health Communities	**Educate 3 million people per year.**	SDG 3, 11 NDP New Uganda Malaria Elimination Strategic Plan	Combat malaria.	Reduce malaria infections by 50%, morbidity by 50% and mortality by 75% by 2025.
Hepatitis B	National Organisation for People Living with Hepatitis B Ministry of Health Communities	**Educate 3 million people per year.**	SDG 3, 11 NDP	Hepatitis B and resulting liver conditions.	Annual awareness campaigns with widespread reach.
Internships	University Secondary Schools Communities	**Train 200 science secondary students per year.** **Train 100 undergraduate students per year.**	SDG 3, 8, 11 NDP	Education Employment	Target one community secondary school (Bishop Cyprian Kihangire).



Safety week. The CEO Mr. Nevin Bradford handing over a donation of road safety equipment to officials from the Directorate of Traffic and Road safety (Uganda Police Force).

World Aids Day Photoshoot. CiplaQCIL staff pose for a group photograph donning the red ribbon in commemoration of World Aids day.

Community water source. CiplaQCIL constructed a well to serve the local community. The pictures show the before and after of the well in use.

Tiisa. CiplaQCIL granted an Education sponsorship to Betty Tiisa at secondary school level, she attended Mount St Mary's college Namagunga where she completed both her ordinary and advanced level studies. The company continued to support her through her University studies at Makerere where she attained a bachelor's degree in industrial Chemistry. Tiisa has joined the company as a production trainee in the production department.

Treatment acid victim. CiplaQCIL supported Rebecca Babirye an acid attack victim with the cost of her treatment amounting to $ 25,000 in Turkey.

Stakeholder Engagement

Our purpose of 'Caring for Life' spans across all our stakeholders. We believe in building and nurturing relationships with our stakeholders and consider them to be key partners of our value creation process.

We actively listen to our stakeholders and have established various touch points and tools for communication, advocacy and engagement. We engage on issues that are important to us as a business as well as to the stakeholders, with the objective of addressing their concerns and identifying new opportunities to create value.

Starting with an in-depth understanding of our stakeholder concerns in FY 2019-20, Cipla continues to engage and seek feedback from them. Despite the restrictions on mobility and face-to-face engagement posed by COVID-19, we continued to engage with our stakeholders through virtual channels.

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Community in which we operate	Help us develop our business and our focus on creating shared value especially under CSR.	Relationship Capital	Interaction through CSR initiatives	Periodic	CSR initiatives	Improving and contributing to the communities in which we operate.
		Human Capital	Cipla foundation website	Permanent	What the brand stands for	
		Social Capital			Human care	
					Proudly Ugandan/ Africa-for-Africa messages	

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Shareholders	Providers of Financial Capital	Relationship Capital	Digital platforms (social media and website)	Weekly basis	What the brand stands for	To increase the frequency of communication between CiplaQCIL management & the shareholders from 0-20%.
		Financial Capital	Media interviews	Monthly	Human care	
		Corporate Governance Report	Videos	Quarterly	Proudly Ugandan/ Africa-for-Africa messages	
			Quarterly town-halls	Quarterly	Structure and responsibility	
			Email	Monthly	COVID-19 safety protocols	
			Newsletters	Monthly	Business progress updates	
			Events - annual AGM	Annual	CSR initiatives	
			SMS communication	Periodic		

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Government & Regulators	They are the regulators of the sector. They enforce policies which impact our operations and long-term business objectives.	Relationship Capital	Workshops	Periodic	How CiplaQCIL is helping Ugandans improve their life expectancy by manufacturing affordable and quality medication.	Create CiplaQCIL champions in the government.
			Media	Event-based	Aligning CiplaQCIL's research and innovation to government health priorities.	Understanding of the business performance.
			Written communication	Periodic	Business progress updates, job creation, revenue from exports, imports and taxes.	Keep continuous flow of information between government and CiplaQCIL.
			Conferences	Event-based		Demonstrate CiplaQCIL's commitment to providing solutions to Uganda's healthcare.
			Facility visits	Periodic		

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
The Media	They are our communication partners. Keep continuous flow of information between the company and the media.	Relationship Capital	Press conferences	Event-based	About CiplaQCIL production processes, quality control	Media coverage split between 80% positive and 20% negative.
			Media interviews	Monthly	What the brand stands for	Create a database of CiplaQCIL media partners. Keep continuous flow of information between management and the media.
			Plant tours	Event-based	Human care	
			Event coverage	Event-based	COVID-19 safety protocols business progress updates	
			Print articles	Monthly / Event-based	Proudly Ugandan/ Africa-for-Africa messages	
			Online Q&As	Monthly	CSR initiatives	
			WhatsApp group	Daily		
			Workshops (training)	Quarterly		
			Digital (social media and website)	Daily		

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
The Public	They are our customer pool and help us develop our business.	Human Capital	Digital Platforms (social media and website)	Permanent	Business progress updates	CiplaQCIL's value proposition.
		Relationship Capital	Media interviews Newsletters	Quarterly Monthly	CSR initiatives	Establish CiplaQCIL as a proudly Ugandan company.
			PR stories / Press coverage	Monthly	What the brand stands for	Establish CiplaQCIL as a company that truly 'Cares for Life'.
					Human care	Demonstrates CiplaQCIL qualifications as manufacturer and it's commitment to providing solutions to Uganda's health care problems.
					Proudly Ugandan/ Africa-for-Africa messages	

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Funders	Invest in our business	Financial Capital	Conference calls	Periodic	What the brand stands for	Build trust and credibility. Reinforce CiplaQCIL's value proposition.
		Relationship Capital	One-on-one meetings	Periodic	Human care	Create consistent flow of communication between CiplaQCIL and its funders.
			General meetings	Event-based	Proudly Ugandan/ Africa-for-Africa messages	Keeping our funders in the know of business progress and updates.
					Structure and responsibility	
					COVID-19 safety protocols	
					Business progress updates	
					CSR initiatives	

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Private Business (patients, pharmacies)	Help with product distribution and understanding of patient's needs	Relationship Capital	Email communication	Monthly	Product updates	Keeping our pharmaceutical partners updated on new products and business growth.
			Conferences and seminars	Event-based	Caring for Life	
			Through field staff	Periodic	Business progress updates	

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement	Message	Target/ Deliverables
Employees	Backbone of our business activities - they contribute toward productivity and efficiency, and help boost profits.	Human Capital	Internal communications	Monthly	Employee policy	Improve the relationship of employees and management.
			Internal newsletters	Monthly	COVID-19 safety measures	Improve the flow of communication between staff and CiplaQCIL management.
			Awards	Annual	Role definition	
			Workshops	Event-based	What the brand stands for	
			Emailers	Monthly	Human care	
			Staff WhatsApp group	Permanent	Business progress updates	
			Internal campaigns	Event-based	Career and personal growth	
			Staff surveys	Annual		
			Internal events	Event-based		
			Staff meetings	Periodic		
			SMS communication	Periodic		

Stakeholders	Why they are important	Capital	Modes of engagement	Frequency of engagement
Major Customers - Government of Uganda - National Medical Stores (NMS) Global Fund - Other sovereign customers - President's Malaria Initiative	Guarantee long-term purchases through framework contacts.	Relationship Capital	Meetings	Periodic
			Institutional visits	Periodic
			Industry conferences	Event-based
			Correspondence	Periodic

Corporate Governance Statement

Governance Philosophy

CiplaQCIL (the Company) is committed to the highest standards of governance, ethics and integrity and to the long-term success of the Company. The Board throughout the year focused on strengthening its operational synergies through establishing sound governance structures, frameworks, policies, procedures and practices aimed not only at improving performance, transparency and accountability, but seeking to create maximum value for stakeholders. The Board diligently provided oversight and effective leadership through its governance functions and ensured strict adherence and implementation of good corporate governance practices aligned to our corporate values.

Board Roles and Responsibilities

The Board is the ultimate decision-making body, except with respect to those matters reserved to the shareholders by law, regulation or by the Company's Articles of Association. The Board is accountable for the performance and proper running of the affairs of the Company in accordance with the Companies Act, the Uganda Securities Exchange Listing Rules and the Capital Markets Authority (Code of Corporate Governance) Guidelines.

The primary responsibilities of the Board:

- provide **strategic direction**
- approve **policy and planning**
- provide **governance oversight and monitoring**
- ensure **accountability and integrity**

Effective leadership and oversight of all the Company's affairs is managed through delegation of the responsibility of the day-to-day management of the Company to a competent executive management team. Other responsibilities of the Board include ensuring that there is compliance with legislative and statutory requirements, ensuring stakeholder engagement and participation, identifying and monitoring key risks among many others.

Board Composition

During the past financial year, the Board was composed of eleven (11) members. The structure of the Board ensures that there is independent judgement and diversity of views and opinions thus protecting and preserving the best interests of the Company's stakeholders. *(see opposite table)*

To enhance the decision-making process, a diverse range of skills and experience exists on the Board. The Executive Directors, being the implementors of strategy are equipped with the expertise required to provide sound governance oversight and make business decisions. Being in a uniquely placed business environment, Board skills requirements are largely influenced by strong thematic experience.

Our Board is comprised of members with skills and experience in the following areas:

- Strategy
- Product Development
- Quality Control
- Compliance
- Health Administration and Research
- Corporate Finance and Accounting
- Risk Management

	Director	Category (ED/NED)	Committees Served	Nationality
1	**Emmanuel Katongole**	Board Chairman and ED	Finance Communications Business Development	Ugandan
2	**Nevin Bradford**	CEO/ED	Finance Communications Business Development	British
3	**George Baguma**	ED	Communications Business Development	Ugandan
4	**Joseph Baliddawa**	INED	Audit & Risk Nominations & Remuneration	Ugandan
5	**Mark Daly**	NED	Audit & Risk Finance Communications	South African
6	**Paul Miller**	NED	Nominations & Remuneration Communications Business Development	South African
7	**Geena Malhotra**	NED	Nominations & Remuneration Business Development	Indian
8	**Dr Peter Mugyenyi**	INED	Nominations & Remuneration Business Development	Ugandan
9	**Dr Ranjana Pathak**	NED	Business Development Finance	American
10	**Stevens Mwanje**	NED	Finance Audit & Risk	Ugandan
11	**John Kamili** (appointed on 27 April 2021)	ED	Business Development	Ugandan
12	**Sam Opio** (resigned on 31 March 2021)	ED	Ugandan	

ED - Executive Director | **NED** - Non-Executive Director | **INED** - Independent Non-Executive Director

Board Appointments and Tenure

The appointment of Directors is governed by the Company's Articles of Association and is subject to regulatory approval in line with applicable legislation and regulation.

The Nominations & Remuneration Committee reviews potential candidates for appointment as directors and recommends the preferred candidate to the Board for approval. Newly appointed Directors hold office until the first AGM after their appointment where they retire from office and are presented to shareholders for appointment. Newly appointed Directors receive a letter of appointment setting out the terms of their appointment.

During the year, Dr. Sam Opio resigned from his position as Company Pharmacist and Executive Director and was replaced by Dr. John Kamili.

At each Annual General Meeting (AGM) of the Company, one-third of the Board, excluding Executive Directors are also required to retire from office and are eligible for re-election. Directors eligible for rotation will be presented for re-appointment at the upcoming AGM.

Director Duties

Directors are cognisant of their fiduciary duty to the company which underpins them in the discharge of their responsibilities and their contribution to the decision-making process. They are required to act in the best interests of the company as a whole to promote the success of the company while exercising diligence and care.

As part of every meeting, directors have an opportunity to declare any interest in any item on the agenda that could result in a conflict of interest which serves as regular reminder of the need to exclude themselves from participation in any discussion or decision of which they are conflicted.

Board Induction and Development

The Board ensures that directors possess the skills, knowledge and experience necessary to fulfil their duties. Directors are kept abreast of applicable legislation and regulations, changes to rules, standards and codes, as well as relevant sector developments, which could potentially impact the Company.

The Board is currently undergoing a Board Excellence Program facilitated by Strathmore Business School. This training covers areas like the 21st century board, current trends in corporate governance, risk management, sustainability reporting, board evaluation.

On appointment, each new Director undergoes induction and receives an induction pack containing relevant governance information such as the Governance Charter and Committees Terms of Reference. The new director also gets an opportunity to tour the Company so as to understand the operations of the business and to interact with Management. The Company Secretary is responsible for the induction and ongoing education of Directors.

Delegation of Authority

The Board delegates its authority to Committees to facilitate effectiveness, timely discharge of obligations as well as ensure detailed analysis of issues by the experts at both committee and management level. Each committee has a Charter approved by the board which outlines the obligations of the committee.

The Board also delegates day to day management to the Chief Executive who controls, oversees and accounts for operations of the Company. The Board however retains control and independent, objective oversight through a well governed framework allowing management to fulfil its responsibility free of interference but ensuring accountability through reports to the board, at least on a quarterly basis.

Board Committees

Board committees facilitate in-depth, efficient consideration of issues applying director expertise to specific areas. The committees consider in detail matters mandated to them by documented Terms of Reference, considering reports from management or from experts at quarterly committee meetings. Each committee is governed by a Committee Charter which is reviewed annually to ensure it remains relevant in line with the legal, regulatory framework, governance best practices and trends in the business environment.

The committees report to the board with recommendations for Board consideration and approval where required.

The Board is comprised of five standing committees as follows; Audit & Risk, Finance, Nominations & Remunerations, Business Development and Communications.

(i) Audit and Risk Committee

The Audit and Risk Committee provides an oversight role, reviews, evaluates and makes recommendations to the Board on risk and compliance management. The Committee also reviews the effectiveness of internal controls in place.

The Committee is comprised of six members: one Independent Non-Executive Director who also acts as the Chairman, two Non-Executive Director and three Members from outside the Board.

The Committee is governed by the Audit and Risk Committee Charter which spells out responsibilities of the Committee.

During the year, membership of the Committee was as follows:

Joseph Baliddawa	Chairman
Mark Daly	Member
Stevens Mwanje	Member
Christine Nabiryo	Member
Timothy Basiimampora	Member
Oscar Manuga	Member

The Internal Auditor, Chief Executive Officer and Chief Finance Officer attend the Committee meetings to provide clarifications wherever necessary.

(ii) Nominations and Remuneration Committee

The Nomination and Remuneration Committee provides an oversight role, reviews, evaluates and makes recommendations to the Board in relation to the Board recruitments, induction, training, development and performance management, the Company's strategic planning and performance and the Company's human capital framework.

The Committee is comprised of 4 members (two Independent Non-Executive Directors and two Non-Executive Directors). The Committee is chaired by an Independent Non-Executive Director.

During the year, the members of the Nomination and Remuneration Committee were as follows:

Dr Peter Mugyenyi	Chairman	Independent Non-Executive
Joseph Maliddawa	Member	Independent Non-Executive
Paul Miller	Member	Non-Executive
Geena Malhotra	Member	Non-Executive

The Company Secretary acts as Secretary to the Committee. The Chairman of the Board and Chief Executive Officer are invited to the meetings of the Committee in order to provide clarification and assist the functioning of the Committee on relevant agenda items. All attendants are required to disclose potential conflict of interest and to excuse themselves on agenda items where there exists a conflict of interest.

(iii) Business Development Committee

The Business Development Committee reviews and advises the Board on strategy implementation and any investment opportunities for the business. It comes up with and reviews the viability of any business proposals for CiplaQCIL.

(iv) Finance Committee

The objective of this Committee is to assist the Board in the discharge of its financial oversight role to ensure the company remains financially sound.

(v) Communications Committee

The objective of this Committee is to provide guidance on development of the Company Communications Strategy and oversee its implementation.

Board Meetings

Upon the institution of the lockdown, the Board transitioned to virtual meetings to ensure the safety of the board members and employees.

In line with best practice, management reports are circulated to the directors at least five days before the scheduled meeting to facilitate director preparedness. This provides directors with ample time to review the documents and internalise information which promotes interrogation and ensures that the Board decisions remain strategic and not operational.

Substantive items requiring deliberation are included on the agenda which together with supporting documentation is circulated in advance to allow for members to internalise and provide sufficient input at the meeting. The agenda is informed by priority decisions and discussions necessary to drive the business forward. The quality of discussions is sufficient to evaluate and interrogate Management thinking to ensure long-term success and sustainability of the Company.

Management is kept accountable for agreed actions arising from the meetings through an action matrix updated with progress discussed at the Board meetings.

The Board considers reports from the Board committees. Directors are provided with Board briefing papers containing management reports prior to each meeting scheduled to facilitate director preparedness. Minutes are approved and signed at the meeting following the one for which they were captured as a record. A minute book is maintained and stored in a safe.

Ample time is allowed for debate and constructive discussion. Decisions are reached by consensus following discussion and debate. Constructive challenge is encouraged.

The Board also approves an annual calendar and adheres to it.

Attendance of meetings remained very good in the past financial year with well-reasoned absence of directors for health or other reasons.

Attendance of meetings in the past Financial Year was as follows:

Director	Q1						Q2					
	ARC	BDC	FC	NRC	CC	Board	ARC	BDC	FC	NRC	CC	Board
	3 Aug	4 Aug	4 Aug	4 Aug	3 Aug	5 Aug	10 Nov	11 Nov	11 Nov	11 Nov	11 Nov	12 Nov
Emmanuel Katongole	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓
Nevin Bradford	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓
Paul Miller	N/A	✓	N/A	✓	✓	✓	N/A	A	N/A	A	A	A
Dr Ranjana Pathak	N/A	✓	✓	N/A	N/A	✓	N/A	A	A	N/A	N/A	A
Dr Peter Mugyenyi	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	A
Stevens Mwanje	✓	N/A	✓	N/A	N/A	✓	✓	N/A	✓	N/A	N/A	✓
Geena Malhotra	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	✓
George Baguma	N/A	✓	N/A	N/A	✓	✓	N/A	A	N/A	N/A	N/A	N/A
Zain Latif (alternate to George Baguma)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	N/A	N/A	✓	✓
Mark Daly	✓	N/A	✓	N/A	✓	✓	✓	N/A	✓	N/A	✓	✓
Sam Opio	N/A	✓	N/A	N/A	N/A	✓	N/A	✓	N/A	N/A	N/A	✓
Joseph Baliddawa	✓	N/A	N/A	✓	N/A	✓	✓	N/A	N/A	✓	N/A	✓

N/A - Not a Member of the Committee | **A** - Apology | **ARC** - Audit & Risk | **NRC** - Nominations & Remuneration
CC - Communications Committee | **FC** - Finance Committee | **BDC** - Business Development Committee
✓ Present

Director	Q3						Q4					
	ARC	BDC	FC	NRC	CC	Board	ARC	BDC	FC	NRC	CC	Board
	2 Mar	1 Mar	1 Mar	1 Mar	2 Mar	3 Mar	26 May	27 May	27 May	27 May	26 May	28 May
Emmanuel Katongole	N/A		✓	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓
Nevin Bradford	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓	N/A	✓	✓
Paul Miller	N/A	✓	N/A	✓	✓	✓	N/A	✓	N/A	✓	✓	✓
Dr Ranjana Pathak	N/A	✓	✓	N/A	A	✓	N/A	A	✓	N/A	N/A	A
Dr Peter Mugyenyi	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	✓	N/A	✓
Stevens Mwanje	✓	N/A	✓	N/A	N/A	✓	✓	N/A	✓	N/A	N/A	✓
Geena Malhotra	N/A	✓	N/A	A	N/A	✓	N/A	✓	✓	✓	✓	✓
Zain Latif (alternate to George Baguma)	N/A	✓	N/A	N/A	✓	✓	N/A	✓	N/A	N/A	A	✓
Mark Daly	✓	N/A	✓	N/A	✓	✓	✓	N/A	✓	N/A	✓	✓
Joseph Baliddawa	✓	N/A	N/A	✓	N/A	✓	✓	N/A	N/A	✓	N/A	✓
Sam Opio (resigned on 31 March 2021)	N/A	✓	N/A	N/A	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A
John Kamili (appointed on 27 April 2021)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	✓	N/A	N/A	N/A	✓

N/A - Not a Member of the Committee | **A** - Apology | **ARC** - Audit & Risk | **NRC** - Nominations & Remuneration
CC - Communications Committee | **FC** - Finance Committee | **BDC** - Business Development Committee
✓ Present

Internal Audit

The role of Internal Audit is to provide assurance to the Board and the Executive Management on governance, risk management, and internal control processes by analysing, measuring and evaluating the effectiveness of systems or controls in place. The Company during the past Financial Year appointed an Internal Auditor charged with the responsibility of reviewing the effectiveness of internal controls and reporting on the same to the Audit and Risk Committee.

The Internal Auditor reports quarterly to the Audit and Risk Committee and has exclusive access to the Chairman of the Committee.

Risk Management

As a pharmaceutical company, our business is exposed to a variety of risks. In response, we have defined a robust Enterprise Risk Management (ERM) framework to identify and manage risks through deployment of comprehensive risk mitigation measures. Our framework is equipped to identify significant external developments and internal challenges which pose a new threat or have potential to adversely impact our existing risk profile.

Based on Management review and deliberations during Audit and Risk Committee (ARC) meetings, given below is a summarised account of some of our key risks and mitigation measures. The list of mitigation measures is only illustrative and not exhaustive. While every company, as part of its risk management strategy, tries to put in place mitigation measures to the extent possible, residual risks cannot be wished away.

1) Customer Default/Delayed Payments from Customers

The economic environment in which we operate has witnessed extraordinary stress which can result in a risk of customer default, receiving payments from customers in a delayed manner and eventually, impacting the Company's liquidity. A defaulting customer would also result in suspension of sales and affect our revenue projections.

Historically, we have had to bear substantial expected credit loss (ECL) charges to our profit and loss statements due to delay in payment by customers.

Mitigation
To a large extent, we supply to our customers only against advance payments or Letters of Credit from reputed banks. Sales on credit term are backed by thorough assessment and due diligence of customer's credit profile and financial standing.

2) Quality

Failure to comply with GxP (Good Laboratory Practices, Good Clinical Practices, Good Manufacturing Practices, etc.) at any stage of product manufacturing can lead to sub-optimal product quality and pose a significant health hazard to our patients.

Mitigation
- A team of Quality professionals are aligned with each manufacturing site to provide oversight and assist the delivery of quality performance and ensure all-time audit readiness;
- Following a product Life Cycle Management Process (LCMP) which focuses on product quality;
- Harnessing Information Technology to digitalize and improve the Quality Assurance processes;
- Investigation and corrective and preventive action (CAPA) for identified non-conformities;
- Continuous institutionalising of *'lessons learned'* from past quality-related incidents of adverse nature;
- Stringent evaluation of vendors and suppliers on quality parameters and ensuring compliance with cGMP requirements mandated by industry regulatory standards.

3) Business Continuity (COVID-19 pandemic and other natural/ man-made disasters)

The COVID-19 pandemic threatens 'business-as-usual' with its overwhelming impact on supply chain, movement of workforce and its disruptive force across markets. The nature of the pandemic also places greater responsibility on the pharmaceutical sector in supporting the fight against COVID-19 and maintaining access of medication for all patients.

Strikes, civil unrest and political instability, particularly in the East Africa region could threaten supply operations which are largely routed through Kenya.

Lastly, a natural disaster/accident at our plant location resulting in damage to equipment could materially impact operations till such equipment is restored to safe and operational condition.

Mitigation
- Robust COVID-19 mitigation measures in place to ensure safe working conditions, proactive identification and management of infection amongst workforce and continuity of supply and production.
- Continuous identification and evaluation of reasonable levels of alternate options to ensure minimal disruption to supply and production activities.

4) Environment, Health and Safety (EHS)

Safety at the workplace is both a priority and a regulatory requirement. EHS incidents pose critical regulatory, reputational and business continuity risks.

Mitigation
- Identification of all EHS risks and prioritised implementation of mitigation measures;
- Periodic risk assessments and robust change management procedures to ensure safe operations.

5) Cyber Security

During the reporting period, pharmaceutical companies were determined to be high value targets and were thus increasingly targeted by cyber criminals by way of ransomware, phishing and other forms of cyber-attacks.

Mitigation
- Well-defined cyber risk management program that involves periodic testing and improvement of controls through simulated phishing and penetration testing exercises;
- Implemented preventive measures such as dark web scanning, cyber intelligence gathering, and threat assessment;
- Real-time scanning of networks by Security Operations Centre;
- Robust incident monitoring and response measures in place;
- Persistent efforts to build employee awareness relating to cyber incidents;
- Insurance coverage for cyber incidents in place.

6) Internal Controls

Lack of well-defined internal controls can have a potentially adverse impact on the Company's profitability, brand and business sustainability.

During the reporting period, where physical audits and verifications were not possible, conventional audit techniques were called into question.

Mitigation
- Well-defined Code of Conduct policy covering a multitude of scenarios and transactions which are most vulnerable to fraud;
- Comprehensive risk-based audit universe and audit plans, further strengthened by robust Internal Financial Controls (IFC) system;
- Robust whistle-blowing mechanism implemented.

Relationship with Stakeholders

The Board and Management are cognisant of the need to uphold the interests of all stakeholders and aims at putting these interests into consideration in decision making.

The need to balance the diverse interest of the stakeholders is key. Effort is made to balance these often-divergent interests.

Statement on Insider Dealing

The Uganda Securities Exchange Listing Rules requires Directors, their close family members and certain employees who have access to insider information not to deal in securities in periods leading up to an announcement of the Company's financial results. The Company has also put in place a governance charter which prohibits the dealing in securities by directors, employees, their close family members and anyone with access to price-sensitive information.

To ensure compliance with this rule, the Company communicates closed periods for trading in its shares to all employees and the Directors of the Board.

The Company's closed periods are in effect from 1st October to the publication of the interim results and from 1st April to the publication of the end of year results.

During other periods, where employees are in possession of price sensitive information, closed periods are imposed on these employees. Compliance with the policies is monitored on an ongoing basis.

Financial Reporting and Disclosures

Financial performance is monitored through quarterly reports from management. The performance is formally reported to shareholders through the annual audited financial statements. The audited accounts are presented to and considered by shareholders at the Annual General Meeting.

CiplaQCIL Financial statements are produced in accordance with International Financial Reporting Standards (IFRS) and the requirements of all the relevant statutes, rules and regulations.

Codes and Regulations

The Company is cognisant of the implications any non-compliance would have on the consumers and the environment. Complying with all applicable legislation, regulations, standards, codes and policies is therefore integral to the Company business. Various Standard Operating Procedures (SOPs) are in place to enhance staff ability to implement the various compliance requirements.

The Board has delegated the responsibility for compliance to management and monitors this through the compliance function. There exists a Compliance Policy which sets out the principles and standards for compliance management in the Company and articulates responsibilities of all personnel in relation to managing compliance risk.

The Audit and Risk Committee is responsible for reviewing reports from the compliance function, reviewing the effectiveness of compliance controls in place and ensuring compliance risk is effectively mitigated.

The Compliance function is also responsible for assessing the impact of new and proposed legislation and regulations and reporting on the same to Management and the Audit and Risk Committee.

The Board also appreciates the requirement for the Company to adhere to good corporate governance standards and practices and this informs the Board in fulfilling its oversight and strategic role. The Company's corporate governance framework is enshrined in Articles of Association, the Companies Act particularly the Code of Corporate Governance (Table F) and international best practice.

The Company has established a **Whistleblowing Policy** and a **Whistleblower Hotline** which provides a platform for employees and any stakeholder to raise concerns in respect of any suspected unethical conduct. **Reporting of unethical conduct is highly encouraged.**

Access to Information & Resources

Executive Management and the Board interact regularly. The Executive Committee Members are invited to attend Board Meetings where necessary. Directors have unrestricted access to management and Company information, as well as the resources required to carry out their roles and responsibilities. This includes external legal and other professional advice at the Company's expense where necessary.

The Directors also has unlimited access to the advice and services of the Company Secretary, who assists in providing any information or documentation that may be required to facilitate the discharge of their duties and responsibilities.

The Company Secretary

The Company Secretary is the custodian of governance for the Board, and as such assists all the members of the Board by providing independent advice and guidance.

The Company Secretary is a member of the Institute of Certified Secretaries (ICSA). She serves as the Secretary to the Board and all the Committees of the Board.

The Company Secretary guides the Directors on their fiduciary duties and responsibilities through induction and continuous training programmes and ensures that the highest standards of corporate governance are met during the establishment and implementation of processes.

To enable the Board to function effectively, all directors have full and timely access to information that may be relevant to the proper discharge of their duties. This includes information such as corporate announcements, investor communications and other developments which may affect the Company and its operations. All directors have access to the services of the Secretary.

Going Concern

The Directors have sufficient reason to believe that the Company has adequate resources to continue operating as a going concern.

Remuneration Report

1. Statement on Remuneration Philosophy

CiplaQCIL endeavours to **attract, retain and nurture a calibre of human resource capable of delivering sustainable growth** of the organisation. Ensuring effective remuneration philosophies, structures and practices are in place and are appropriately implemented remains a key agenda for the Nominations and Remuneration Committee.

2. Structure of Remuneration

Fixed Pay

This is intended to **attract and retain employees by ensuring competitive positioning** in the local market. The Nominations and Remuneration Committee reviews the fixed pay to ensure it remains competitive and is aligned to the remuneration philosophy of the organisation.

Benefits

The Company provides medical cover and death benefits for staff and dependents. Other benefits like contribution to the staff retirement scheme are also provided.

Pursuant to Clause 16.10.13 in the initial Public Offering (IPO) Prospectus dated 10 August 2018, it was disclosed that each of the founding executive directors (Emmanuel Katongole, Frederick Mutebi Kitaka and George Willy Baguma ('EFG')) and founding Chairman, the late Francis Kitaka, were entitled to retirement and life assurance arrangements appropriate for their efforts in the foundation of the Company, including monthly retirement benefit payments of **75%** of gross monthly salary. This benefit was to be passed over to nominated beneficiaries upon death ('the Retirement Benefits'). In addition, a death in service benefit of **$ 1,000,000** (if prior to retirement from the Company) was to be provided.

The Company maintains insurance in relation to this death in service benefit.

Due to the ambiguity in the initial employment contracts relating to Retirement Benefits, the Company agreed with EFG to terminate their old employment contracts and entered into negotiations with EFG for a more defined arrangement regarding the Retirement Benefits. **The following arrangement has been contractually agreed to, in order to provide further clarity on the Retirement Benefits:**

- new employment contracts for EFG until age 70, based on the same salary and benefits as set out in the IPO;
- the Company will contribute approximately **$ 994,000** in aggregate per annum to the defined contribution retirement benefit scheme provided by a reputable insurance company, until each of EFG attain the age of 70; and
- death in service Life Cover has been increased to **$ 3.2m** for each of EFG, which reduces annually by the amount of retirement benefit contributions.

This arrangement provides certainty to both the Company and EFG and reduces the Company's exposure to future retirement liabilities.

Variable Pay: Annual Incentive

Annual incentives are provided to **ensure appropriate reward for performance**. Performance bonuses are determined based on personal performance and the overall company performance.

The Company also provides an Employee Stock Appreciation Right (ESAR) to its eligible employees for their contribution in improving the share price of the Company. The pay-out amount is dependent on the percentage of increase in the share price.

Terms of Employment

The terms and conditions of employment of all managers and general employees are guided by local legislation and the Company's Human Resource Manual.

Severance Payments

Severance payments are determined by legislation and market practice.

Restrictive Covenants

Some executive employment contracts include restrictive covenants on the poaching of customers, disclosure of company information to a third party and use of company information for personal gain. No other restrictions are included in contracts at present.

3. Directors' Remuneration

Remuneration of Executive Directors

The remuneration of Executive Directors is determined in the same manner as that of other employees and using the same qualifying criteria.

Remuneration of Non-Executive Directors and Terms of Engagement

All Non-Executive Directors are provided with a letter of appointment setting out the terms of engagement. Directors are appointed by shareholders at the AGM. Between AGMs interim appointments may be made by the Board. These interim appointees are required to retire at the following AGM where they then offer themselves for re-election by shareholders. In addition, one-third of Non-Executive Directors are required to retire at each AGM and may offer themselves for re-election. In the past Financial Year, the Board did not appoint any director to fill a casual vacancy. The Board approved the appointment of Zain Latif as alternate director to George Baguma.

Currently, the Company only remunerates its independent non-executive directors. Non-Executive Directors who are shareholder representatives do not receive any remuneration from the Company.

In determining the remuneration of the Independent Non-Executive Directors, the Board considers the extent and nature of their responsibilities, and benchmarks with other organisations of the nature similar to that of CiplaQCIL.

The table below shows the breakdown of Executive Directors' emoluments for the year ended 31 March 2021 in USD.

	Fixed Pay	Other Benefits	Pension Contributions	Quarterly Fees	Committees Sitting Allowance
Executive Directors	$ 1,021,724	$ 246,506	$ 153,259		
Non-Executive Directors				$ 47,094	$ 43,176

Report of the Audit and Risk Committee

The Committee in implementing its mandate is guided by the Companies Act of Uganda 2012, the Uganda Securities Exchange (USE) Listing Rules 2021 and the Audit & Risk Committee Terms of Reference.

Meetings were held virtually due to the COVID-19 pandemic. There was 100% attendance of Committee Meetings by all members.

All committee members attended capacity development trainings majorly on Governance in a disruptive environment (the COVID-19 pandemic), the 21st Century Board, board evaluation, effective Board for the Benefit of Stakeholders and risk management.

During the period under review, the Committee, among other matters, considered the following:

a. In respect of Financial Statements

i. The Committee received and reviewed the interim and annual financial statements presented by Management prior to submission and approval by the Board.

ii. The Committee obtained assurance from the External Auditor that the financial statements had been prepared in accordance with the Companies Act 2012, the USE Listing Rules 2021, International Financial Reporting Standards (IFRS) and other legal and regulatory requirements.

iii. Ensured that the annual financial statements fairly presented the financial position of the Company as at the end of the financial year and considered the basis on which the Company had been determined to be a going concern.

iv. Considered accounting treatments, significant unusual transactions and accounting judgements.

v. Considered the appropriateness of the accounting policies in place and recommended changes thereto.

vi. Reviewed and discussed the Management Report and report of the External Auditor.

vii. Noted that there were no material reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of the annual financial statements, internal controls and related matters.

viii. Reviewed any significant legal and tax matters that could have a material impact on the financial statements.

ix. The Committee reviewed the Company's financial position and made recommendations to the Board on financial matters, risks and controls. This included assessing the integrity and effectiveness of accounting, financial, compliance and control systems in place.

After their review, the Committee presented and recommended the financial statements to the Board for approval. The External Auditor issued an unqualified audit opinion on the Company's financial statements for the year ended 31 March 2021.

b. In respect of External and Internal Audit

i. Approved the External Auditor's terms of engagement.

ii. Discussed with the External Auditor the external audit plan, the audit findings, financial reporting process and the overall quality of the financial reporting and compliance.

iii. Reviewed the audit process and evaluated the effectiveness of the audits.

iv. Obtained assurance from the External Auditor that their independence was not impaired and that no non-audit services were provided by the External Auditor.

v. Confirmed that no reportable irregularities were identified and reported by the External Auditor.

vi. Assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory.

vii. Considered reports of the Internal and External Auditor on the internal control, including internal financial controls and maintenance of effective internal control systems.

viii. Discussed with the Internal Auditor the internal audit plan, the audit findings, financial reporting process and the overall quality of the financial reporting and compliance.

ix. Reviewed and approved the Internal Audit Charter and annual audit plan and evaluated the independence, effectiveness and performance of the internal audit function.

x. Reviewed significant issues raised by the internal audit processes and the adequacy of corrective actions in response to such findings.

xi. Ensured that if any significant differences of opinion existed between the Internal Auditor and Management, these were appropriately resolved.

xii. Received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal.

The Committee formed the opinion that there were no material breakdowns in internal control at the date of this report, including internal financial controls, resulting in any material loss to the company.

c. Independence of the External Auditor

The Audit Committee is satisfied with the independence of that Grant Thornton.

This was determined, after taking into account the following factors:

- The representations made by Grant Thornton to the Audit and Risk Committee in relation to their independence as external auditor.
- The Auditor does not, except as external auditor receive any remuneration or other benefits from the Company.
- The Auditor's independence was not impaired by any consultancy, advisory or other work undertaken by them.
- The Auditor's independence wa not prejudiced as a result of any previous appointment as auditor.

d. In respect of compliance requirements

i. Monitored compliance applicable legislation and governance codes, and reviewed reports from Internal Audit, External Auditor and Management detailing the extent of this.

ii. Noted that no complaints were received through the Whistleblower Hotline concerning accounting matters, internal audit, internal financial controls, contents of financial statements, potential violations of the law and questionable accounting or auditing matters.

e. In respect of Risk Management

i. The Committee oversaw the ongoing process of implementation of an Enterprise Risk Management Framework.

Management shall be required to report to the Audit and Risk Committee on the implementation of the Risk Management Framework including effectiveness of the controls put in place to manage the risks identified.

f. In respect of the Annual Report

i. Ensured that all material disclosures were included in the Annual Report.

ii. Reviewed forward-looking statements, financial and sustainability information in respect of internal controls and internal audit.

In conclusion, the Audit and Risk Committee is confident that it has fulfilled its mandate.

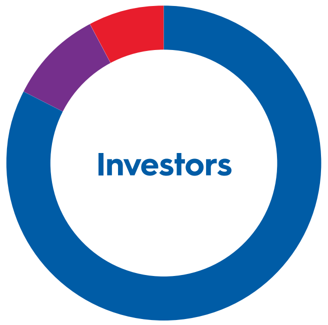
On behalf of the Audit and Risk Committee.

Joseph Baliddawa

Chairman of Audit and Risk Committee

Shareholder Analysis

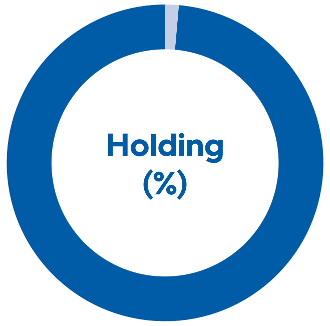
Summary of Returns as at 31 March 2021.



Foreign | Local Individual | Local Corporate

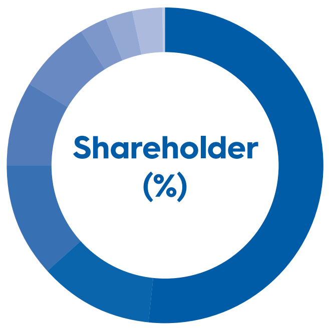
Nationality	Category	No. of Members	No. of Shares	% Holding
Local investors	Corporate	77	280,687,587	7,69%
	Individual	2,398	354,802,623	9,72%
		2,475	**635,490,210**	**17,41%**
Foreign Investors	Corporate	7	3,010,513,188	82,43%
	Individual	115	5,905,802	0,16%
		122	**3,016,418,990**	**82,59%**
		2,597	**3,651,909,200**	**100%**

Shareholding as at 31 March 2021.



Range ID	Description	No. of Investors	No. of Shares	% Holding
1	Between 0 - 1,000 Shares	445	395,253	0,01%
2	Between 1,001 - 5,000 Shares	973	2,709,740	0,08%
3	Between 5,001 - 10,000 Shares	402	3,448,925	0,09%
4	Between 10,001 - 1,000,000 Shares	763	50,100,582	1,37%
5	Above 1,000,000 Shares	14	3,595,254,700	98,45%
		2,597	**3,651,909,200**	**100%**

Top 10 Shareholders as at 31 March 2021.



	Shareholder Name	Amount	%
1	Meditab Holdings Limited	1,864,299,646	51,05%
2	Amistad Limited	420,402,713	11,51%
3	SCB Mauritius A/C Capital Works SSA 1	407,152,191	11,15%
4	Government Employees Pension Fund	312,000,000	8,54%
5	National Social Security Funds	269,361,386	7,38%
6	Katongole Emmanuel	101,933,042	2,79%
7	Mutebi Frederick Kitaka	101,933,042	2,79%
8	Baguma George Willy	101,933,042	2,79%
9	Cipla (EU) Limited	4,871,038	0,13%
10	Yiga Joseph	4,000,000	0,11%
		3,587,886,100	**98,24%**

Prepared by: SCD Registrars
Nakawa Business Park, Block A, 4th Floor.
P.O. Box 23552, Kampala, Uganda | registry@use.or.ug

Board of Directors

Emmanuel Katongole

Board Chairman

Mark Daly

Non-Executive Director

Nevin J Bradford

CiplaQCIL CEO/
Executive Director

Geena Malhotra

Non-Executive Director

George Baguma

Executive Director

Stevens Mwanje

Non-Executive Director

Dr John Kamili

Executive Director

Prof Peter Mugyenyi

Independent
Non-Executive Director

Paul Miller

Non-Executive Director

Joseph Baliddawa

Independent
Non-Executive Director

Dr Ranjana Pathak

Non-Executive Director

Management Team

Nevin J Bradford

CiplaQCIL CEO

Doreen Pachuto Awanga

Company Secretary

Ajay Kumar Pal

Chief Operations Officer

Harrison Kiggundu

Head of Human Resources

Frederick Andrew Kakooza

Chief Finance Officer

Dr John Kamili

Company Pharmacist

Atul Vadepalli

Head of Quality Control /
Quality Assurance

" The pessimist complains about the wind. The optimist expects it to change. **The leader adjusts the sails.**"

– John Maxwell

Financial Statements

Cipla Quality Chemical Industries Limited
Annual Report and Financial Statements for the year ended 31 March 2021.

1 COMPANY INFORMATION

PRINCIPAL PLACE OF BUSINESS

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

BANKERS

Absa Bank Uganda Limited
Plot 2, Hannington Road
P. O. Box 7101
Kampala, Uganda

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

SOLICITORS

K&K Advocates
SRK House
Plot 67, Lugogo Bypass
P. O. Box 6061
Kampala, Uganda

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

SECRETARY

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

AUDITOR

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

DIRECTORS' REPORT

The directors submit their report together with the audited financial statements for the year ended 31 March 2021, which disclose the state of affairs of Cipla Quality Chemical Industries Limited ("the Company").

A. INCORPORATION AND PRINCIPAL ACTIVITY

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 2021 (2020: 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 (resigned on 31 March 2021)
John Kamili (Ugandan)	Executive Director (appointed on 27 April 2021)
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
Stevens Mwanje (Ugandan)	Non-Executive Director
Zain Latif (British)	Alternate to George Baguma
Dr. Peter Mugyenyi (Ugandan)	Independent Non-Executive Director
Joseph Baliddawa (Ugandan)	Independent Non-Executive Director

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

DIRECTORS' REPORT (continued)

E. DIRECTORS' INTEREST IN SHARES

As at 31 March 2021, the following directors held a direct interest in the Company's share capital as reflected in the table below:

Director	Number of shares	%
Emmanuel Katongole	101,933,042	2.7912
George William Baguma	101,933,042	2.7912
Nevin J Bradford	178,095	0.0049
Stevens Mwanje	19,400	0.0005
	204,063,579	**5.5878**

F. INDEPENDENT AUDITOR

The auditor, 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 2021 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

30 August **2021**

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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 2021, 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 73 to 110, which have been prepared on the going concern basis, were approved by the Board of Directors on 30 August 2021 and signed on its behalf by:

NJ Brenford

Director

Date: 30 August 2021

Director

Date: 30 August 2021

Grant Thornton

Certified Public Accountants

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 73 to 110 which comprise the statement of financial position as at 31 March 2021, 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 2021, 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 (ISAs). 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.

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of inventories Inventories, stated at USh 68,808,084 thousand as at 31 March 2021, 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.

Revenue recognition The Company's revenue for the year ended 31 March 2021 was UShs 284,539,939 thousand. 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.
Application of IFRS 16 Leases IFRS 16 Leases requires operating leases to be on the statement of financial statements except in limited circumstances. 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.	- 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 UShs 100,998,956 thousand (gross) as at 31 March 2021. The cumulative impairment allowance as at that date is UShs 46,984,011 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. 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 *(continued)*

Other information

The directors are responsible for the other information on pages 1 to 67. 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.
- 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.

REPORT OF THE INDEPENDENT AUDITOR *(continued)*

- 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 – P0453.

Grant Thornton

Grant Thornton
Certified Public Accountants

30 August 2021

Kampala, Uganda

Yuonusu Musoke – P0453
Partner

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2021 USHs '000	2020 USHs '000
Revenue	3	**284,539,939**	192,681,692
Cost of sales	4	**(229,514,053)**	(155,736,503)
Gross profit		**55,025,886**	36,945,189
Other income	5	**149,887**	38,507
General and administrative expenses	6	**(51,646,048)**	(36,617,171)
Impairment allowance on financial assets	16	**(9,061,502)**	(32,169,969)
Operating loss		**(5,531,777)**	(31,803,444)
Finance costs and finance income - net	9	**(4,162,471)**	(3,928,097)
Loss before tax	10	**(9,694,248)**	(35,731,541)
Taxation	11	**(843,995)**	12,658,678
Loss for the year		**(10,538,243)**	(23,072,863)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(10,538,243)**	(23,072,863)
Basic and diluted loss per share (UShs)	18(d)	**(2.89)**	(6.32)

The notes on pages 77 to 110 are an integral part of these financial statements.

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

STATEMENT OF FINANCIAL POSITION

	Notes	2021 UShs '000	2020 UShs '000
ASSETS			
Non-current assets			
Property, plant, equipment and right-of-use assets	12	**62,695,252**	54,189,768
Capital work-in-progress	13	**7,194,385**	19,279,748
Intangible assets	14	**1,226,370**	1,358,075
Deferred tax asset	11(b)	**11,180,841**	10,501,984
		82,296,848	85,329,575
Current assets			
Inventories	15	**68,808,084**	70,725,283
Trade and other receivables	16	**65,197,093**	87,577,600
Current tax receivable	11(a)	**859,240**	758,584
Cash and cash equivalents	17	**9,064,768**	4,075,600
		143,929,185	163,137,067
TOTAL ASSETS		**226,226,033**	248,466,642
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**45,648,865**	45,648,865
Capital grant	19	**2,275,000**	2,275,000
Retained earnings		**87,755,099**	97,313,531
		135,678,964	145,237,396
LIABILITIES			
Non-current liabilities			
Term loan	21	**24,472,000**	-
Lease liabilities	22	**248,453**	406,695
		24,720,453	406,695
Current liabilities			
Term loan	21	**8,740,000**	-
Lease liabilities	22	**217,316**	289,725
Trade and other payables	23	**55,441,065**	55,457,879
Bank overdraft	17	**1,428,235**	47,074,947
		65,826,616	102,822,551
TOTAL LIABILITIES		**90,547,069**	103,229,246
TOTAL EQUITY AND LIABILITIES		**226,226,033**	248,466,642

The financial statements on pages 73 to 110, were approved by the Board of Directors on 30 August 2021 and signed on its behalf by:

Director

Director

The notes on pages 77 to 110. are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

	Note	Share capital USh '000	Capital grant UShs '000	Retained earnings UShs '000	Total UShs '000
At 1 April 2019		45,648,865	2,275,000	120,386,394	168,310,259
Total comprehensive loss 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**
At 1 April 2020		45,648,865	2,275,000	97,313,531	145,237,396
Total comprehensive loss for the year					
Loss for the year		-	-	(10,538,243)	(10,538,243)
Other comprehensive income		-	-	-	-
Gain on purchase of Quality Chemicals Limited human pharmaceutical distribution business	20	-	-	1,399,730	1,399,730
Tax on gain from purchase of Quality Chemicals Limited human pharmaceutical distribution business		-	-	(419,919)	(419,919)
Other comprehensive income		-	-	-	-
At 31 March 2021		**45,648,865**	**2,275,000**	**87,755,099**	**135,678,964**

The notes on pages 77 to 110, are an integral part of these financial statements.

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

STATEMENT OF CASH FLOWS

	Notes	2021 UShs '000	2020 UShs '000
Operating activities			
Loss before tax		**(9,694,248)**	(35,731,541)
Adjustment for:			
Impairment allowance on financial assets		**9,061,502**	32,169,969
Depreciation	12	**8,114,787**	6,393,020
Deferred factory costs written off	13	**1,644,274**	-
Amortisation	14	**296,215**	429,368
Provision for obsolete inventories		**1,992,013**	1,307,036
Gain on disposal of property and equipment		**(33,898)**	(2,730)
Interest expense		**2,509,130**	3,960,507
Cash generated from operations		**13,889,775**	8,525,629
Interest paid on bank overdraft	21	**(1,698,673)**	(3,898,390)
Interest paid on term loan	21	**(753,561)**	-
Payment for interest on lease liabilities	22(c)	**(56,896)**	(62,116)
Tax paid		**(2,043,427)**	(758,584)
Changes in:			
- inventories		**1,789,219**	9,188,843
- trade and other receivables		**16,703,353**	20,290,407
- trade and other payables		**(292,298)**	(10,054,877)
Net cash generated from operating activities		**27,537,492**	23,230,912
Investing activities			
Proceeds from sale of property, plant and equipment		**33,898**	2,730
Purchase of property, plant and equipment	12	**(6,199,446)**	(3,535,093)
Additions to capital work-in-progress	13	**-**	(11,311,254)
Purchase of intangible assets	14	**(164,510)**	(49,311)
Purchase of human drug business	20	**(3,848,651)**	-
Net cash used in investing activities		**(10,178,709)**	(14,892,928)
Financing activities			
Proceeds from term loan	21	**35,245,000**	-
Repayment of term loan	21	**(1,743,250)**	-
Payment for principal portion of lease liability	22(b)	**(224,653)**	(132,782)
Net cash from/ (used in) financing activities		**33,277,097**	(132,782)
Net change in cash and cash equivalents		**50,635,880**	8,205,202
Cash and cash equivalents at start of year		**(42,999,347)**	(51,204,549)
Cash and cash equivalents at end of year		**7,636,533**	(42,999,347)

The notes on pages 77 to 110, are an integral part of these 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.

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 Uganda Shillings (UShs), the functional currency of the Company. All financial information has been rounded off to the nearest thousands unless otherwise stated.

b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Significant accounting judgements and estimates (continued)

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:

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Significant accounting judgements and estimates (Continued)

Current income taxes (Continued)

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.

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

Level 2 financial instruments (continued) - 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.

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 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.

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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)

d) 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.

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).

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

Classification and measurement of financial liabilities (Continued)
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.

e) Property, plant, equipment and right-of-use assets

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing assets to a working condition for their intended use, cost of dismantling and removing the items and restoring the site on which they are located and capitalized borrowing costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as a separate item (major components) of property, plant and equipment. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit and loss.

Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write down the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Company. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised. Refer item (i) below on leases for detailed policies for right of use assets.

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 lease period of land the building stands
Motor vehicles	25.00%
Tools and equipment	25.00%
Computers	33.30%
Furniture and fittings	12.50%
Plant and machinery	10.00%
Right-of-use assets	3–5years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

f) 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)

g) 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.

h) 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, dutie 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 manufacturin 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.

i) Employee benefits

Short term 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 profit or loss as incurred. Any differences between the charge to profit or loss and NSSF contributions payable is recorded in the statement of financial position 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Employee benefits (continued)

Defined contribution plans

The Company and all its' employees contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a pension plan under which the Company pays a fixed contribution to a separate entity. The Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund which is funded by contributions from both the Company and employees.

The Company's contributions to the defined contribution scheme are charged to the statement of profit or loss and other comprehensive income in the year to which they fall due.

j) 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)

j) 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.

k) 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.

l) 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.

m) 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.

n) 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

n) Revenue from contracts with customers (continued)

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.

o) 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.

p) Fair value measurement

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)

q) Leases

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.

(r) **New standards, interpretations and amendments to standards**

New standards, interpretations and amendments to standards adopted during the year

In the current year, the Company has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ amendment	Effective date - Year beginning on or after	Key requirements	Impact
Definition of a business - Amendments to IFRS 3	01-Jan-20	The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs.	The impact of the amendment is not material.
Presentation of Financial Statements: Disclosure initiative – IAS 1	01-Jan-20	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The impact of the amendment is not material.
Accounting Policies, Changes in Accounting Estimates and Errors: Disclosure initiative - IAS 8	01-Jan-20	The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.	The impact of the amendment is not material.
Interest rate benchmark reform Phase 1 – Amendments to IFRS 9, IAS 39 and IFRS 7	01-Jan-20	Amendments issued to address uncertainties related to the ongoing reform of interbank offered rates (IBOR). The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform.	The impact of the amendment is not material
COVID-19 Rent Related Concessions – IFRS 16	01-Jun-20	The amendments introduced an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. Under that practical expedient, a lessee is not required to assess whether eligible rent concessions are lease modifications, instead accounting for them in accordance with other applicable guidance.	The impact of the amendment is not material

(r) New standards, interpretations and amendments to standards(continued)

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 accounting periods beginning on or after 1 January 2021 or later periods:

Standard/amendment	Effective date - Year beginning on or after	Key requirements	Impact
Onerous contracts – Cost of fulfilling a contract (Amendment to IAS 37)	01-Jan-22	The amendments clarify that the 'costs of fulfilling a contract' comprise both: the incremental costs – e.g. direct labour and materials; and an allocation of other direct costs – e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.	The impact of the amendment is not likely to be material
Proceeds before Intended Use – IAS 16	01-Jan-22	Under the amendments: •Sale proceeds no longer deducted from the cost of property, plant and equipment (PPE) before its intended use •Testing the functioning of an item of property, plant and equipment means assessing its technical and physical performance rather than financial performance. •Additional disclosure requirements for sales proceeds and related production costs	The impact of the amendment is not likely to be material
Interest rate benchmark reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	01-Jan-21	The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark	The impact of the amendment is not likely to be material

NOTES TO THE FINANCIAL STATEMENTS

	2021 UShs '000	2020 UShs '000
3 Revenue		
Local sales	**157,841,047**	167,553,898
Exports	**126,698,892**	25,127,794
	284,539,939	192,681,692

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

	2021 UShs '000	2020 UShs '000
ARVs	**209,375,051**	116,981,489
ACTs	**71,534,706**	76,270,877
Others	**3,644,981**	-
Credit notes	**(14,799)**	(1,469,876)
Hepatitis B	**-**	899,202
Total	**284,539,939**	192,681,692
4 Cost of sales		
Material costs	**193,268,949**	119,466,333
Other production overheads	**15,558,669**	12,633,866
Staff expenses	**10,028,458**	12,131,907
Depreciation	**6,947,579**	5,286,470
Royalties	**5,483,494**	4,506,790
Stock write (back)/off	**(1,773,096)**	1,711,137
	229,514,053	155,736,503
5 Other income		
Sale of scrap	**115,989**	35,777
Gain on disposal of property and equipment	**33,898**	2,730
	149,887	38,507
6 General and administrative expenses		
Staff expenses	**20,288,139**	15,496,195
Advertising	**12,905,705**	5,406,254
Other administration expenses	**12,136,461**	9,921,894
Office expenses	**3,838,260**	3,333,577
Depreciation	**1,167,208**	1,106,550
Amortisation	**296,215**	429,368
Bank charges	**282,468**	302,986
Professional fees	**638,911**	491,295
Audit fees	**92,681**	129,052
	51,646,048	36,617,171

NOTES TO THE FINANCIAL STATEMENTS

	2021 UShs '000	2020 UShs '000
7 Staff expenses		
Salaries and wages	**21,975,463**	21,135,072
Medical expenses	**1,923,551**	1,146,098
NSSF contribution	**1,992,477**	2,072,709
Staff welfare	**1,625,453**	1,907,450
Catering expenses	**1,416,116**	2,021,730
Provision of bonus - net of reversals	**1,078,602**	(957,447)
Provident fund	**138,547**	127,111
Leave provision	**123,633**	-
Training costs	**40,891**	880
Staff recruitment costs	**1,864**	174,499
	30,316,597	27,628,102
Staff costs are allocated as follows:		
Cost of sales	**10,028,458**	12,131,907
General and administrative expenses	**20,288,139**	15,496,195
	30,316,597	27,628,102
8 Amortisation and depreciation		
Depreciation*	**8,114,787**	6,393,020
Amortisation	**296,215**	429,368
	8,411,002	6,822,388
*Depreciation allocated as follows:		
Cost of sales	**6,947,579**	5,286,470
General and administrative expenses	**1,167,208**	1,106,550
	8,114,787	6,393,020
9 Finance costs and finance income - net		
Interest expense on bank overdraft	**1,698,673**	3,898,390
Interest on term loans	**753,561**	-
Interest on finance lease liabilities	**61,325**	62,116
Realised foreign exchange loss/(gain)	**3,718,222**	(2,588,392)
Unrealised foreign exchange (gain)/loss	**(2,069,310)**	2,555,983
	4,162,471	3,928,097

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

NOTES TO THE FINANCIAL STATEMENTS

	2021 UShs '000	2020 UShs '000
10 Loss before tax		
Loss before tax is after the following charges/(credits):		
Depreciation	**8,114,787**	6,393,020
Net foreign exchange (gains)/losses	**1,648,912**	(32,409)
Amortisation	**296,215**	429,368
Auditor's remuneration	**92,681**	129,052
Gain on disposal of property, plant and equipment	**33,898**	2,730

11 Taxation

a) Income tax

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.

	2021 UShs '000	2020 UShs '000
Current income tax charge	**1,942,771**	-
Deferred tax credit	**(1,098,776)**	(12,658,678)
	843,995	(12,658,678)

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:

	2021 UShs '000	2020 UShs '000
Loss before tax	**(9,694,248)**	(35,731,541)
Tax calculated at the statutory income tax rate of 30%	**(2,908,274)**	(10,719,462)
Tax effect of:		
Under provision for prior years	**(2,713)**	-
Expenses not deductible for tax purposes	**4,174,901**	349,798
Deferred income tax (charge)/credit not recognised	**-**	(2,289,014)
	843,995	(12,658,678)

As at 31 March 2021, the Company had tax receivable amount of UShs. 859 million (2020: UShs 759 million) resulting from provisional income tax payments made during the year. The amount will be offset against future income tax obligations of the Company.

b) Deferred tax asset

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:

	2021 UShs '000	2020 UShs '000
At the start of the year	**10,501,984**	(2,156,694)
Charged to statement of changes in equity	**(419,919)**	-
Credited to statement of profit or loss	**1,098,776**	12,658,678
	11,180,841	10,501,984

NOTES TO THE FINANCIAL STATEMENTS

12 Property, plant, equipment and right-of-use assets

	Right-of-use asset USh '000	Buildings UShs '000	Plant & machinery UShs '000	Furniture & fittings UShs '000	Motor vehicles UShs '000	Computers UShs '000	Tools & equipment UShs '000	Total UShs '000
COST								
At 1 April 2019	-	17,446,869	49,792,262	1,106,348	2,482,314	2,123,852	1,778,734	74,730,379
On reclassification	2,776,233	-	-	-	-	-	-	2,776,233
Additions	829,202	2,586,353	53,618	183,811	-	193,439	517,871	4,364,294
Transfer from CWIP	-	8,912,385	14,659,140	85,408	-	328,438	1,597,068	25,582,439
Disposals	-	-	-	(9,911)	(6,182)	-	-	(16,093)
At 31 March 2020	3,605,435	28,945,607	64,505,020	1,365,656	2,476,132	2,645,729	3,893,673	107,437,252
At 1 April 2020	3,605,435	28,945,607	64,505,020	1,365,656	2,476,132	2,645,729	3,893,673	107,437,252
Adjustment	(20,264)	-	-	-	-	-	-	(20,264)
Additions	-	-	2,636,228	352,618	464,562	848,319	1,897,719	6,199,446
Transfer from CWIP	-	4,273,469	6,167,620	-	-	-	-	10,441,089
Disposals	-	-	-	-	(192,769)	-	-	(192,769)
At 31 March 2021	**3,585,171**	**33,219,076**	**73,308,868**	**1,718,274**	**2,747,925**	**3,494,048**	**5,791,392**	**123,864,754**
DEPRECIATION								
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	4,019,298	113,551	450,405	358,323	356,954	6,393,020
On disposals	-	-	-	(9,911)	(6,182)	-	-	(16,093)
At 31 March 2020	184,270	8,210,446	37,965,561	1,030,824	2,049,795	2,032,927	1,773,661	53,247,484
At 1 April 2020	184,270	8,210,446	37,965,561	1,030,824	2,049,795	2,032,927	1,773,661	53,247,484
Charge for the year	158,358	1,241,137	4,823,620	164,353	386,166	451,783	889,370	8,114,787
On disposals	-	-	-	-	(192,769)	-	-	(192,769)
At 31 March 2021	**342,628**	**9,451,583**	**42,789,181**	**1,195,177**	**2,243,192**	**2,484,710**	**2,663,031**	**61,169,502**
NET BOOK VALUE								
At 31 March 2021	**3,242,543**	**23,767,493**	**30,519,687**	**523,097**	**504,733**	**1,009,338**	**3,128,361**	**62,695,252**
At 31 March 2020	3,421,165	20,735,161	26,539,459	334,832	426,337	612,802	2,120,012	54,189,768

NOTES TO THE FINANCIAL STATEMENTS

13 Capital work-in-progress

	Buildings UShs '000	Other capital work in progress UShs '000	Deferred consultancy UShs '000	Total UShs '000
At 31 March 2019	11,264,102	20,642,557	1,644,274	33,550,933
Additions	1,935,465	9,375,789	-	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	13,348,292	1,644,274	19,279,748
At 1 April 2020	4,287,182	13,348,292	1,644,274	19,279,748
Reclassified on capitalisation	(13,713)	13,713	-	-
Written off to profit or loss	-	-	(1,644,274)	(1,644,274)
Transfer to property, plant and equipment	(4,273,469)	(6,167,620)	-	(10,441,089)
At 31 March 2021	**-**	**7,194,385**	**-**	**7,194,385**

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.

The capital work-in-progress (CWIP) represents the cost of the machinery under installation and progressing construction work at the Luzira factory.

The consultancy services related to design fees for phase 2 of the factory that had been planned to increase production capacity. The factory construction plans were revised and deferral of these costs was no longer appropriate. Accordingly, the amounts were written off to the profit or loss account during the year.

NOTES TO THE FINANCIAL STATEMENTS

	2021 USh '000	2020 USh '000
14 Intangible assets		
COST		
At start of year	**3,073,486**	3,024,175
Additions	**164,510**	49,311
At end of year	**3,237,996**	3,073,486
AMORTISATION		
At start of year	**1,715,411**	1,286,043
Charge for the year	**296,215**	429,368
At end of year	**2,011,626**	1,715,411
NET CARRYING AMOUNT	**1,226,370**	1,358,075

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

	2021 USh '000	2020 USh '000
15 Inventories		
Raw materials	**34,474,854**	47,111,830
Finished goods	**12,199,912**	4,354,828
Work-in-progress	**10,832,893**	7,798,793
Packing materials	**7,285,069**	9,333,785
Stocks in transit	**6,540,281**	2,183,495
Other stocks	**1,371,653**	1,847,117
	72,704,662	72,629,848
Less: provision for obsolete inventories	**(3,896,578)**	(1,904,565)
	68,808,084	70,725,283
16 Trade and other receivables		
Financial instruments		
Trade receivables	**100,998,956**	97,820,117
Less: expected credit losses	**(46,984,011)**	(37,482,709)
	54,014,945	60,337,408
Other receivables	**217,827**	670
Non-financial instruments		
Advance payments to suppliers	**5,327,158**	17,720,544
VAT recoverable	**4,614,647**	8,591,420
Withholding tax recoverable	**356,352**	355,821
Prepayments	**665,524**	450,226
Staff advances	**640**	121,511
	65,197,093	87,577,600
Movement in expected credit losses		
Opening balance	**37,482,709**	5,312,740
Acquired human drug business receivables provision	**439,800**	-
Charge to profit or loss	**9,061,502**	32,169,969
Closing balance	**46,984,011**	37,482,709

NOTES TO THE FINANCIAL STATEMENTS

16 Trade and other receivables (continued)

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:

	2021 USh '000	2020 USh '000
Grading of receivables		
High grade (0–90 days)	**54,404,493**	41,262,968
Standard grade (91–365 days)	**3,647,325**	26,609,638
Individually impaired and over 365 days	**42,947,138**	29,947,511
Total	**100,998,956**	97,820,117

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

	2020 USh '000	2019 USh '000
Movement in gross trade receivables		
Opening balance	**97,820,117**	113,391,254
Sales during the year:	**284,539,939**	192,681,692
Receipts	**(281,361,100)**	(208,252,829)
Closing balance	**100,998,956**	97,820,117

	From 61 to 90 days USh '000	From 91 to 180 days USh '000	From 181 to 365 days USh '000	Over 365 days USh '000	Total USh '000
Past due but not impaired	4,347,426	10,083	302,131	-	4,659,640
Past due and impaired	-	(9,429)	(162,139)	-	(171,568)
	4,347,426	**654**	**139,992**	**-**	4,488,072

In the opion of the directors, the carrying amount of trade and other receivables approximate to their fair values.

	2021 USh '000	2020 USh '000
17 Cash and cash equivalents		
Cash on hand	**864**	80,287
Cash at bank	**9,063,904**	3,995,313
Cash and cash equivalents in the statements of financial position	**9,064,768**	4,075,600
Bank overdraft	**(1,428,235)**	(47,074,947)
Cash and cash equivalents in the statement of cash flows	**7,636,533**	(42,999,347)

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances.

The cash and bank balances are held at Absa Bank Uganda Limited and Standard Chartered Bank Uganda Limited and, insofar as the directors are able to measure any credit risk to these assets, it is deemed to be limited. Accordingly, the Company has not recognised an impairment allowance on bank balances as at 31 March 2021 (2020: Nil).

The overdraft facilities were obtained from Absa Bank Uganda Limited (Absa) and Standard Chartered Bank Uganda Limited (Standard Chartered) for cash management purposes. The Absa facility was reduced to a limit of USD 10.00 million from USD 19.65 million in 2020 after receipt of a loan from Standard Chartered to refinance capital expenditure. The Absa overdraft interest rate is 4 per cent above 3 months LIBOR while the Standard Chartered interest rate is 3.5% above 3 months LIBOR.

NOTES TO THE FINANCIAL STATEMENTS

17 Cash and cash equivalents (continued)

The carrying amounts of the Company's cash at bank are denominated in the following currencies:

	2021	2020
	UShs '000	UShs '000
US dollar	**4,970,288**	13,552
Uganda Shilling	**4,093,616**	3,981,761
	9,063,904	3,995,313

18 Share capital

a) Ordinary shares - authorised, issued and fully paid

	2021	2020
Number of shares	**3,651,909,200**	3,651,909,200
Nominal value per share (UShs)	**12.5**	12.5
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.

All ordinary shares rank equally with regard to the Company's residual assets. Holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the Company's general meetings.

b) Shareholding

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

	2021		2020	
	Shares	**Percentage**	Shares	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%

c) Spread of shares

Holding at 31 March 2021	**No. of investors**	No of shares held	Percentage holding
Between 0 and 1,000 Shares	**445**	396,814	0.0%
Between 1,001 and 5,000 Shares	**973**	2,690,749	0.1%
Between 5,001 and 10,000 Shares	**402**	3,473,278	0.1%
Between 10,001 and 1,000,000 Shares	**763**	48,632,359	1.3%
Above 1,000,001 Shares	**14**	3,596,716,000	98.5%
	2,597	3,651,909,200	100%

NOTES TO THE FINANCIAL STATEMENTS

c) Spread of shares (continued)

Holding at 31 March 2020	**No. of investors**	**No of shares held**	Percentage holding
Between 0 and 1,000 Shares	435	395,253	0.0%
Between 1,001 and 5,000 Shares	963	2,709,740	0.1%
Between 5,001 and 10,000 Shares	404	3,448,925	0.1%
Between 10,001 and 1,000,000 Shares	770	50,100,582	1.4%
Above 1,000,001 Shares	14	3,595,254,700	98.5%
	2,586	3,651,909,200	100%

d) Earnings per share

	2021	2020
Loss attributable to ordinary equity holders of the Company (UShs'000)	**(10,538,243)**	(23,072,863)
Weighted average number of ordinary shares in issue during the year	**3,651,909,200**	3,651,909,200
	(2.89)	(6.32)

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.

19 Capital grant

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 valued at an initial sum of UShs 2.275 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.

The directors elected to have it appropriated into a separate reserve under equity.

20 Purchase of Quality Chemicals Limited human pharmaceutical distribution business

In September 2020, an agreement was concluded to sell and transfer the QCL's human drug business to the Company for consideration of US$ 1,035,140. The net identifiable assets acquired were as follows:

	Value UShs '000
Asset	
Inventory	1,879,816
Trade receivables	3,368,565
	5,248,381
Consideration paid	(3,848,651)
	1,399,730

Given that QCL is related to the Company through common ownership and directorship with Cipla Limited (India), the parent, the gain on this purchase was directly recognized as a credit in the retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

	2021 USh '000	2020 UShs '000
21 Term loan		
Current portion	8,740,000	-
Non-current portion	24,472,000	-
	33,212,000	-

During the year, the Company obtained a term loan from Standard Chartered Bank Uganda Limited of $ 9,500,000 (2020: Nil) to refinance the capital expenditure originally financed using short term funds at weighted average interest rate of 5.87%. The loan is unsecured and is repayable by September 2025.

The movement in bank borrowings is as follows:

Year ended 31 March 2021

	Term loan UShs '000	Bank overdraft UShs '000	Total UShs '000
At start of year	-	47,074,947	47,074,947
Interest charged to profit or loss	753,561	1,698,673	2,452,234
Foreign exchange loss	(289,750)	1,926,627	1,636,877
Cash flows:			
Interest paid	(753,561)	(1,698,673)	(2,452,234)
Proceeds from bank borrowings	35,245,000	-	35,245,000
Repayment of bank borrowings	(1,743,250)	(47,573,339)	(49,316,589)
At end of year	33,212,000	1,428,235	34,640,235

Year ended 31 March 2020

	Term loan UShs '000	Bank overdraft UShs '000	Total UShs '000
At start of year	-	51,973,633	51,973,633
Interest charged to profit or loss	-	3,898,390	3,898,390
Foreign exchange loss	-	2,184,348	2,184,348
Cash flows:			
Interest paid	-	(3,898,390)	(3,898,390)
Repayment of bank borrowings	-	(7,083,034)	(7,083,034)
At end of year	-	47,074,947	47,074,947

The exposure of the Company's bank borrowings to interest rate changes at the reporting dates are:

	2021 UShs '000	2020 UShs '000
6 months or less	3,496,000	-
6 - 12 months	6,672,235	47,074,947
1 - 5 years	24,472,000	-
	34,640,235	47,074,947

In the opinion of the directors, the carrying amount of short term bank borrowings approximate to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

22 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				
Year ended 31 March 2020				
On reclassification	2,776,233	-	-	2,776,233
Additions	-	500,731	328,471	829,202
Depreciation	-	(74,780)	(109,490)	(184,270)
At end of year	2,776,233	425,951	218,981	3,421,165
Year ended 31 March 2021				
At start of year	**2,776,233**	**425,951**	**218,981**	**3,421,165**
Adjustment	**-**	**(31)**	**(20,233)**	**(20,264)**
Depreciation	**-**	**(55,612)**	**(102,746)**	**(158,358)**
At end of year	**2,776,233**	**370,308**	**96,002**	**3,242,543**
b) Lease liabilities				
At 31 March 2021				
Current	**-**	**109,641**	**107,675**	**217,316**
Non-current	**-**	**248,453**	**-**	**248,453**
At end of year	**-**	**358,094**	**107,675**	**465,769**
At 31 March 2020				
Current	-	177,216	112,509	289,725
Non-current	-	279,161	127,534	406,695
At end of year	-	456,377	240,043	696,420
Cash outflow for leases in year was:				
Payment for principal portion of lease liability	-	124,148	100,505	224,653
Payment for interest on lease liabilities	-	49,297	7,599	56,896
	-	173,445	108,104	281,549
c) Reconciliation of lease liabilities arising from financing activities:				
At start of year	-	456,377	240,043	696,420
Adjustment to cost of warehouse liability		(31)	(20,233)	(20,264)
Charged to statement of profit or loss:				
Interest on finance lease liabilities		49,297	7,599	56,896
Foreign exchange loss		25,896	(11,630)	14,266
Cash flows:				
Operating activities	-	(49,297)	(7,599)	(56,896)
Financing activities	-	(124,148)	(100,505)	(224,653)
At end of year	**-**	**358,094**	**107,675**	**465,769**

The Company leases land, warehouses and motor vehicles. The leases for the land and warehouse are for 99 years and 3 years respectively. The leases for the motor vehicles are for periods of 3 and 4 years. All these leases have no option for renewal.

None of the leases contains any restrictions or convenats other than protective rights of the lessor or carries a residual value guarantee.

In the opinion of the directors, the carrying amount of the lease assets and liabilities approximate to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

		2021 UShs '000	2020 UShs '000
23	**Trade and other payables**		
	Trade payables	**22,318,830**	28,294,025
	Accruals	**10,745,196**	5,262,907
	Withholding tax payable	**441,186**	620,505
	Due to related parties	**21,935,853**	21,280,442
		55,441,065	55,457,879

24 Related parties

The Company is controlled by Meditab Holdings Limited incorporated in Mauritius which owns 51.05% of the Company's shares. The remaining 48.95% are widely held. The ultimate parent company is Cipla Limited incorporated in India.

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	5,065,954	• Purchase of raw materials
	5,483,494	• Technical services fees
	97,617	• Sale of goods
	310,382	• IT services
	12,685	• Purchase of machinery
Sitec Labs Private Limited	17,818	• Analytical work on raw materials
Cipla Medpro South Africa (Pty) Limited	2,887,164	• Purchase of materials
	54,802,913	• Sale of ARVs
Total transactions with related parties	68,678,027	

The following were the balances as at 31 March:

		2021 UShs '000	2020 UShs '000
a)	**Due from related parties**		
	Cipla Medpro South Africa (Pty) Limited	**-**	5,936,996
	Cipla Limited	**997,443**	1,007,163
		997,443	6,944,159

Amounts due from related parties relates to outstanding balances from sales of products. These amounts are unsecured, interest free and are receivable within 30 to 60 days.

		2021 UShs '000	2020 UShs '000
b)	**Due to related parties**		
	Cipla Limited	**21,914,957**	21,255,603
	Cipla Medpro South Africa (Pty) Limited	**2,832**	-
	Sitec Labs Private Limited	**18,064**	24,838
		21,935,853	21,280,442

Amounts due from related parties relates to outstanding balances for purchases of raw materials. The amounts are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS

		2021 UShs '000	2020 UShs '000
24	**Related parties (continued)**		
c)	**Key management compensation**		
	Short-term employee benefits	**4,849,988**	4,364,114

25 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 any significant loss.

26 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:

a) Market risk

i) 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.

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

a) Market risk (continued)

i) Foreign currency risk(continued)

	US$	UShs '000
At 31 March 2021		
Financial assets		
Bank balances	**2,401,335**	**8,836,912**
Trade and other receivables	**26,496,377**	**97,506,666**
Due from related parties	**270,433**	**995,192**
	29,168,145	**107,338,770**
Financial liabilities		
Trade and other payables	**4,801,088**	**17,668,005**
Bank overdraft	**388,107**	**1,428,235**
Lease liabilities	**126,568**	**465,769**
Due to related parties	**5,960,830**	**21,935,853**
	11,276,593	**41,497,862**
Net position (receivable)	**17,891,552**	**65,840,908**
At 31 March 2020		
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
Lease liabilities	183,172	696,420
Due to related parties	5,819,507	22,125,766
	20,325,499	77,275,243
Net position (payable)	(2,093,578)	(7,957,478)

The analysis below summarises the effect on post tax loss and components of equity had the Uganda Shilling weakened or strengthened by 1% against the dollar with all other variables held constant.

	2021 UShs '000	2020 UShs '000
+1%	**(658,409)**	(260,427)
-1%	**658,409**	260,427

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

a) Market risk (continued)

ii) Interest rate risk

The Company's interest-bearing financial instruments include a bank loan and bank overdraft. These are at various rates, and they are therefore exposed to cash flow interest rate risk. The Company regularly monitors financing options available to ensure optimum interest rates are obtained.

At 31 March, the effect on post tax loss and components of equity of an increase/(decrease) of 1% in interest rates with all other variables held constant is summarised below:

	2021 UShs '000	2020 UShs '000
+1%	**(474,831)**	(548,960)
-1%	**474,831**	548,960

b) 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.

Credit risk on deposits with banking institutions is managed by dealing with institutions with good credit ratings.

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:

	2021 UShs '000	2020 UShs '000
Trade and other receivables	**55,037,461**	61,264,966
Cash at bank	**9,063,904**	3,995,313
	64,101,365	65,260,279

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 is as follows:

	2021 UShs '000	2020 UShs '000
Government of Uganda (GOU) – NMS	**135,557,918**	114,944,930
Global Fund to Fight AIDS, Tuberculosis and Malaria	**32,884,762**	56,749,170
Other sovereign customers	**24,198,717**	1,483,018
Presidential Malaria Initiative	**16,114,983**	-
	208,756,380	**173,177,118**

26 Financial risk management (continued)

b) Credit risk (continued)

Expected credit losses for trade receivables are determined for each reporting period using a single loss rate approach. Under the loss rate approach, the Company develops loss-rate statistics based on the amounts collected over the life of the financial assets rather than using separate probability of default and loss given default statistics. The Company then adjusts these historical credit loss trends for current conditions and expectations about the future. The loss rates are based on the respective customer categories. The calculation reflects a simple average of all loss rates per period, reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Company uses an overlay of measuring and forecasting the level of defaults. The Company does not hold collateral as security.

The expected credit losses for the other financial assets are generally determined using expected credit loss rates derived from the prevailing credit ratings of the counter parties. The determination of expected credit losses reflects the probability-weighted outcome, time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and expected future economic conditions. No other financial assets were considered to be in default (2020: None).

Set out below is the credit risk exposure arising from the Company's trade receivables using a single loss rate approach:

	2021			
	Gross receivables UShs '000	**Loss rates**	**Expected Credit Loss UShs '000**	**Carrying amount UShs '000**
Trade receivables				
Sovereign customers	**42,947,139**	**100%**	**42,947,139**	**-**
Intercompany customers	**997,443**	**0%**	**-**	**997,443**
Multilateral Agencies	**15,482,251**	**0%**	**-**	**15,482,251**
Private market customers	**41,572,123**	**10%**	**4,036,872**	**37,535,251**
	100,998,956		**46,984,011**	**54,014,945**
Other financial assets				
Advance payments to suppliers	**5,327,158**	**0%**	**-**	**5,327,158**
Withholding tax recoverable	**356,352**	**0%**	**-**	**356,352**
VAT recoverable	**4,614,647**	**0%**	**-**	**4,614,647**
Staff advances	**640**	**0%**	**-**	**640**
Other receivables	**217,827**	**0%**	**-**	**217,827**
Prepayments	**665,524**	**0%**	**-**	**665,524**
Cash at bank	**9,063,904**	**0%**	**-**	**9,063,904**
	20,246,052		**-**	**20,246,052**
Total financial assets	**121,245,008**		**46,984,011**	**74,260,997**

26 Financial risk management (continued)

b) Credit risk (continued)

	2020			
	Gross receivables UShs '000	Loss rates	Expected Credit Loss UShs '000	Carrying amount UShs '000
Trade receivables				
Sovereign customers	79,105,924	43%	34,218,000	44,887,924
Intercompany customers	10,435,242	0%	-	10,435,242
Multilateral agencies	4,004,743	0%	-	4,004,743
Private market customers	4,274,208	76%	3,264,709	1,009,499
	97,820,117		37,482,709	60,337,408
Other financial assets				
Advance payments to suppliers	17,720,544	0%	-	17,720,544
Withholding tax recoverable	355,821	0%	-	355,821
VAT recoverable	8,591,420	0%	-	8,591,420
Staff advances	121,511	0%	-	121,511
Other receivables	670	0%	-	670
Prepayments	450,226	0%	-	450,226
Bank balances	3,995,313	0%	-	3,995,313
	31,235,505		-	31,235,505
Total financial assets	129,055,622		37,482,709	91,572,913

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are 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.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Up to 3 months UShs '000	**3 to 12 months UShs '000**	**Above 12 months UShs '000**	**Total UShs '000**
31 March 2021				
Bank overdraft	**-**	**1,428,235**	**-**	**1,428,235**
Finance lease liabilities	**52,378**	**164,938**	**239,704**	**457,020**
Trade and other payables	**55,441,065**	**-**	**-**	**55,441,065**
	55,493,443	**1,593,173**	**239,704**	**57,326,320**
31 March 2020				
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

NOTES TO THE FINANCIAL STATEMENTS

26 Financial risk management (continued)

d) 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. No changes were made in the objectives, policies or processes during the years ended 31 March 2020 and 31 March 2021.

e) 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.

f) 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 identica instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directl (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 th 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 2021, 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

27 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 2021 and the date of approval of the financial statements, that has not been otherwise dealt with in the financial statements.

28 Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

29 Presentation currency

The financial statements are presented in Uganda Shillings (UShs) rounded off to the nearest thousand, unless indicated otherwise.

AGM Notice

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of Cipla Quality Chemical Industries Limited for the year ended 31 March 2021 will be held via electronic means on Wednesday, 29 September 2021 starting at 11:00 am to transact the following business:

ORDINARY BUSINESS

1. To consider, and if deemed fit, pass an ordinary resolution to receive and adopt the Company annual audited financial statements for the financial year ended 31 March 2021 together with the reports of the Directors and External Auditor.

2. To consider, and if deemed fit, pass an ordinary resolution to re-elect directors in accordance with the provisions of the Company Articles of Association.

3. To consider, and if deemed fit, pass an ordinary resolution to approve the re-appointment of Grant Thornton as the External Auditor of the Company for Financial Year 2021/22 and authorise the Board of Directors to set their remuneration.

4. To consider, and if deemed fit, pass an ordinary resolution to receive and approve the fees payable to the Non-Executive Directors for the year 2021/22.

5. To conduct any other business for which due notice will have been duly received.

By Order of the Board
7 September 2021

Doreen Awanga
COMPANY SECRETARY

Notes:

i. Due to the existing government restrictions on public gatherings as a result of the COVID-19 pandemic, the Company shall conduct the Annual General Meeting (AGM) via electronic means in accordance with Article 77 of the Articles of Association.

ii. To participate in the virtual AGM, shareholders are advised to register by either dialling *284*31# (Uganda mobile networks) or *483*821# (Kenya mobile networks) and follow the prompts or send an email request to Ciplaagm@image.co.ke. Shareholders with email addresses will receive a registration link via email through which they can use to register.

iii. Registration commences on 8 September 2021 at 8:00 am and will close on 27 September 2021 at 5:00 pm. For registration support, please call +254 709 170 000 or send an email to Ciplaagm@image.co.ke.

In order to complete the registration process, shareholders will need to provide their National ID/Passport Numbers/SCD Account Number. For assistance, shareholders should dial the following helpline number: +254 709 170 000 from 9:00 am to 4:00 pm from Monday to Friday or send an email to Ciplaagm@image.co.ke or shareholder@ciplaqcil.co.ug.

iv. Shareholders are entitled to attend, speak and vote at the meeting. A shareholder may appoint a proxy if he/she is unable to attend the meeting. A proxy form is attached to the Notice of the Annual General Meeting or may be downloaded from the Company website (www.ciplaqcil.co.ug). A completed form of proxy should be emailed to shareholder@ciplaqcil.co.ug or delivered to CiplaQCIL offices no later than 48 hours before the scheduled time for the meeting. In default of this, it shall be treated as invalid.

v. Shareholders wishing to raise any questions or clarifications regarding the AGM may do so by sending their written questions by 27 September 2021 by 11:00 am through the following means:

a) By dialling the USSD codes *284*31# (Uganda mobile networks) or *483*821# (Kenya mobile networks) and selecting the 'Ask Question' option,
b) by email to Ciplaagm@image.co.ke or shareholder@ciplaqcil.co.ug.
c) to the extent possible, by physical delivery, with a return physical address or email address, to the registered office of the Company at Plot 1-7, 1st Ring Road, Luzira Industrial Park,
d) by registered post, with a return physical address or email address, to the Company Secretary's address at Cipla Quality Chemical Industries Ltd, Plot 1-7, 1st Ring Road, Luzira Industrial Park, P.O. Box 34871, Kampala, Uganda.

Shareholders must provide their full details (full names, ID/Passport Number/SCD Account Number) when submitting their questions and clarifications.

Responses to some of the questions received shall be provided at the meeting. A list of all questions received, and the answers thereto will be published on the Company's website within 24 hours after conclusion of the AGM.

vi. The following documents will be available and accessible on the Company's website www.ciplaqcil.co.ug. i) a copy of this Notice; ii) the proxy form; iii) the Company's Annual Report and Audited Financial Statements for the year ended 31 March 2021. Shareholders who have provided their email addresses will receive these documents on their emails.

The reports may also be accessed upon request by dialling the USSD code above and selecting the 'Reports' option. The reports and agenda can also be accessed on the livestream link.

vii. The AGM will be streamed live via a link which shall be provided to shareholders who will have registered to participate at the AGM. Duly registered shareholders and proxies will receive an SMS/USSD prompt on their registered mobile numbers, 24 hours prior to the AGM acting as a reminder. A second SMS/USSD code shall be sent at least 1 hour to the meeting providing a link to the live stream. By registering to attend the AGM, a shareholder opts to receive these messages.

viii. Shareholders will receive an SMS prompt, with instructions, on their registered mobile phone number alerting them to Propose and Second the resolution put forward in the notice.

ix. Duly registered Shareholders and proxies may access the agenda and follow the proceedings of the AGM using the livestream platform. Duly registered Shareholders and proxies may vote (when prompted) on the USSD platform by following the SMS prompts or on the livestream link.

x. Voting shall be done electronically via USSD or through the web link shared upon successful registration. A poll shall be conducted for all the resolutions. All registered shareholders will receive a notification to vote once voting opens.

xi. Resolutions of the meeting will be announced before close of the meeting and thereafter published in a newspaper of national circulation and the Company Website within 24 hours after conclusion of the AGM. Shareholders who have provided their email addresses will also be notified via the same.

Proxy Form

A shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote on his/her stead. A proxy need to be a member of the Company.

I/We, ______________________________
(Name in block letters)
of ______________________________
(Address)
being a shareholder(s) and holder(s) of ______________ ordinary shares and entitled to vote hereby appoint,

1. ______________________________
or failing him/her

2. ______________________________
or failing him/her

The Chairman of the Annual General Meeting
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held via electronic communication on the 29th day of September 2021 starting at 11am and at any adjournment thereof as follows:

		VOTES		
		For*	**Against***	**Withheld***
AGENDA				
1.	To adopt the Company annual audited financial statements for the financial year ended 31 March 2021 together with the reports of the Directors and External Auditor.			
2a.	To approve the re-election of Mr. Stevens Mwanje as Non-Executive Director			
2b.	To approve the re-election of Mr. Joseph Baliddawa as Non-Executive Director			
2c.	To approve the re-election of Dr. Ranjana Pathak as Non-Executive Director			
3.	To consider, and if deemed fit, pass an ordinary resolution to approve the re-appointment of Grant Thornton as the External Auditor of the Company for Financial Year 2021/22 and authorise the Board of Directors to set their remuneration.			
4.	To consider, and if deemed fit, pass an ordinary resolution to receive and approve the fees payable to the Non-Executive Directors for the year 2021/22.			

**insert a cross or tick, if no options are marked, the proxy can vote as he/she deems fit.*

Dated this ________ day of ______________ , 2021

Signature: ______________________________

Name: ______________________________

Address: ______________________________

Social Media

Facebook
@ciplauganda

Instagram
@ciplauganda

Linkedin
Cipla Quality Chemical Industries Ltd

Twitter
@CiplaUganda

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