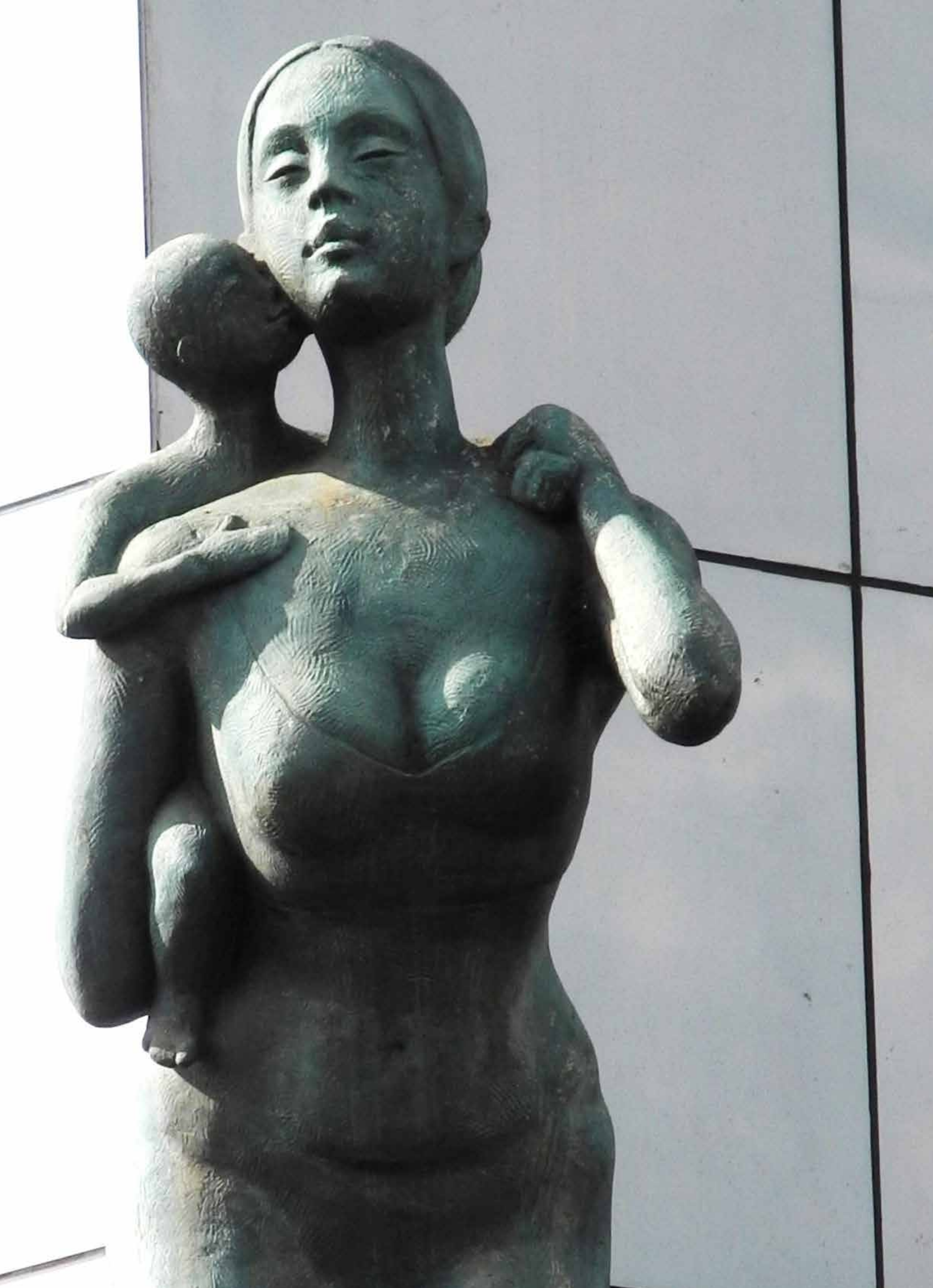
CiplaQCi

ACCESS TO QUALITY AFFORDABLE MEDICINES

ACCESS TO AFFORDABLE QUALITY HEALTHCARE, MANUFACTURED IN AFRICA

ANNUAL REPORT

2018/2019



Contents

Notice of the AGM

NOTICE is hereby given that the Annual General Meeting of Cipla Quality Chemical Industries Limited will be held on Wednesday, 14 August, 2019 at the Company Head Office Located at Plot 1-7, 1 Ring Road, Luzira Industrial Park from 11:00 am to transact the following business.

Ordinary Business

1. To receive, consider and if approved adopt the annual audited financial statements of the Company for the financial year ended 31 March 2019 and the reports of the Board of Directors and Auditors.
2. To rotate and re-elect directors: In accordance with the provisions of Article 115 of the Company's Amended Articles of Association, Mr. Paul Miller, Mr. Mark Daly, Dr. Ranjana Pathak and Mr. Nishant Saxena all retire by rotation and being eligible offer themselves for re-election:
3. To appoint Non-executive Directors: In accordance with the Provisions of Article 121 of the Company's Amended Articles of Association, Mr. Stevens Mwanje, Mr. Joseph Baliddawa and Dr. Peter Mugyenyi having been appointed to fill a casual vacancy be confirmed as directors of the Company.
4. To approve the appointment of Grant Thornton as the External Auditors' of the Company for the next financial year ending 31 March 2020 and to authorise the Board to set their remuneration.

Special Business

5. To approve fees payable to Non-Executive Directors for the period until the next Annual General Meeting.

On behalf of the Board,

Doreen Pachuto Awanga

Company Secretary

NOTES

1. **Details of Directors:** Directors details as required by the Listing Rules of the Uganda Securities Exchange Limited (the Listing Rules) are set out on page 7 of the Annual Report that accompanies this notice of the Annual General Meeting (AGM).
2. **Directors' Responsibility Statement:** The Directors whose names are given on page 7 of the Annual Report, collectively and individually accept full responsibility for the accuracy of the information given in the Annual Report and certify to the best of their knowledge and belief that there are no facts that have been omitted which would make any statement in the Annual Report false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice contains all information required by Law and the Listing Rules.
3. **Interests of Directors:** The interests of the Directors in the share capital of the Company are set out on page 57 of the Annual Report.
4. **Details of Major Shareholders:** Major shareholders of the Company are set out on page 53 of the Annual Report.
5. **Material Change:** There has been no material change in the financial or trading position of the Company since the publication of the Company's annual results. Shareholders may attend, speak or vote at the AGM or may appoint a proxy in accordance with Articles 87 to 96 of the Articles of Association. Such proxy need not be a member of the Company.

A proxy form is enclosed in the Annual Report or may be downloaded from the Company's website at www.ciplaqcil.co.ug. Proxies, to be effective, should be deposited at the Company's head office at Plot 1-7, 1 Ring Road, Luzira Industrial Park, P.O. Box 34871, Kampala, Uganda or emailed in pdf to dpawanga@ciplaqcil.co.ug and received not later than 12 August, 2019.

The Annual Report for the Year ended 31 March, 2019 is also available on the Company website at www.ciplaqcil.co.ug and will also be dispatched by email to members who have provided valid email addresses. Printed copies of the Annual Report will be available at the venue of the Meeting.

Registered Address:
Cipla Quality Chemical Industries Ltd
Plot 1-7, 1st Ring Road, Luzira Industrial Park
P. O. Box 34871, Kampala, Uganda
Tel:+256312341100
www.ciplaqcil.co.ug

Share Registrars:
USE Nominees Ltd t/a SCD Registrars
UAP Nakawa Business Park
Plot 3-5 New PortBell Road Nakawa
4th Floor Block A
P.O Box 23552 Kampala Uganda
Tel:+256 (0) 312 370 815/17/18
registry@use.or.ug

Corporate Information

Company Directory

1.1	Name of Issuer	Cipla Quality Chemical Industries Limited
1.2	Country of Incorporation	The Republic of Uganda
1.3	Date of Incorporation	10 June 2005
1.4	Company Number	P.558
1.5	Registered/Head Office	Cipla Quality Chemical Industries Limited Luzira Industrial Park P.O. Box 34871, Kampala, Uganda
1.6	Authorised Share Capital	UGX 45,648,865,000
1.7	Issued and Paid-up Share Capital	UGX 45,648,865,000
1.8	Financial Calendar	31 March year end
1.9	Website	www.ciplaqcil.co.ug

CiplaQCi
ACCESS TO QUALITY AFFORDABLE MEDICINES

Directors

1 **Mr. Emmanuel Katongole** (Ugandan)
Executive Chairman
Profession: Business Executive
Age: 57
Address: P.O.Box 3481 Kampala

2 **Mr. Nevin Bradford** (British)
CEO
Profession: Chief Executive Officer
Age: 62
Address: P.O.Box 3481 Kampala

3 **Mr. George Baguma** (Ugandan)
Executive
Profession: Business
Age: 59
Address: P.O.Box 3481 Kampala

4 **Mr. Frederick Mutebi Kitaka** (Ugandan)
Retired 16-09-2018
Profession: Business Executive
Age: 57
Address: P.O Box 34871, Kampala

5 **Ms. Beth Mandel** (American)
Resigned 28-02-2019
Profession: Business Executive
Age: 54
Address: Capital Hill, 7th Floor, 6 Benmore Road, Benmore Sandton, 2010 R.S.A

6 **Mr. Zain Latif** (British)
Resigned 28-02-2019
Profession: Business Executive
Age: 36
Address: 34, Lombard Road, London SW11, 3RF. UK

7 **Dr. Ranjana Pathak** (American)
Director
Profession: Quality Specialist
Age: 61
Address: 9 Adyaman Society, off SV Rd Vile, Parle (W) Mumbai 4008 India

8 **Mr. Paul Miller** (South African)
Director
Profession: Business Executive
Age: 55
Address: 15 Belair Drive Constantia- Cape Town R.S.A.

9 **Mr. Chandru Chawla** (Indian)
Resigned 28-02-2019
Profession: Business Executive
Age: 53
Address: Cipla House, Peninsula Business Park Ganpatrao Kadam Marg, Lower Parel, Mumbai – 400 013 India

10 **Mr. Nishant Saxena** (Indian)
Director
Profession: Business Executive
Age: 43
Address: Cipla House, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai-400013 India

11 **Mr. Mark Daly** (South African)
Director
Profession: Business Executive
Age: 39
Address: 527 Azzura Street Val de Vie Paarl R.S.A.

12 **Mr. Samuel Opio** (Ugandan)
Director
Profession: Pharmacist
Age: 39
Address: P.O.Box 3481 Kampala

13 **Dr. Abofele Bogosi Khoele** (South African)
Alternate to Dr. Ranjana Pathak
Profession: Business Executive
Age: 44
Address: 21 Cape Verde Drive Bloubergstrand Cape Town 7441. R.S.A.

14 **Prof Peter Mugyenyi** (Ugandan)
Director
Profession: Medical Doctor
Age: 70
Address: P.O.Box 4967, Kayonga Zone Muyenga

15 **Mr. Joseph Baliddawa** (Ugandan)
Director
Profession: Accounting Executive
Age: 65
Address: P.O.Box 33566, Nyonyi Gardens Kololo

External Auditors	**Ernst & Young** **Certified Public Accountants of Uganda** Ernst & Young House 18 Clement Hill Road, Shimoni Office Village P.O. Box 7215, Kampala, Uganda
Principal Bankers	**Barclays Bank of Uganda Limited** Hannington Road P.O. Box 7101, Kampala, Uganda **Standard Chartered Bank Uganda Limited** Speke Road P.O. Box 7111, Kampala, Uganda
Lawyers	**Kalenge, Bwanika & Co. Advocates** 3rd Floor, Ruth Towers Plot 15A Clement Hill Road P.O. Box 8352, Kampala, Uganda **MMAKS Advocates** 3rd Floor, DTB Centre Plot 17/19, Kampala Road P.O.Box 7166, Kampala **K & K Advocates (Formerly Kiwanuka & Karugire)** SRK House, Plot 67 Lugogo Bypass P.O.Box 6061, Kampala


EARTHING INTEGRITY
MONITORING SYSTEM

Who We Are

Cipla Quality Chemical Industries Limited (CiplaQCIL) is East Africa's largest pharmaceutical manufacturer and one of the largest in Sub-Saharan Africa (SSA). It is one of the few pharmaceutical manufacturers in SSA to operate a World Health Organization (WHO) certified cGMP compliant facility that manufactures a range of WHO pre-qualified medicines, in CiplaQCIL's case ARV's for the treatment of HIV/AIDS and ACT's treatments.

CiplaQCIL is an African pharmaceutical Company fulfilling its commitment to making the highest quality affordable, lifesaving medicines available to African patients manufactured in Africa.

Since its establishment in 2005, CiplaQCIL has undertaken multiple capacity expansion programs and has expanded its portfolio of medicines considerably. CiplaQCIL manufactures the two first line WHO recommended therapies for Hepatitis B Tenofovir 300mg and Entecavir 0.5mg and 1.0mg tablets, and the new first line triple combination ARV therapy; Dolutegravir Sodium, Lamivudine Tenofovir Disoproxil Fumarate. CiplaQCIL manufactures 130 million tablets a month on a two-shift basis in its manufacturing facility which operates under world class standards of minimal and zero environmental impact, strict adherence to cGMP, good laboratory standards (GLP) and international regulatory standards.

CiplaQCIL's Plant is approved for supply in 13 SSA countries with exports to 11 countries in Africa and two in South East Asia. CiplaQCIL's intent is to be registered in 20 SSA countries by the end of 2020.
On 17 May 2017, CiplaQCIL signed a memorandum of understanding with the Government of Zambia (GOZ) for supply of ARVs, ACTs, hepatitis and other medications with a minimum value of USD 10 million per year for the next 20 years. To date, orders from GOZ have already exceeded USD 10 million.

As part of our Memorandum of Understanding with GOZ, we have also undertaken to work with GOZ to explore the possibility of establishing a pharmaceutical manufacturing plant in Zambia to manufacture essential medicines other than ARVs and ACTs. This process is on-going and we are confident that this will come to completion in the near future.

Our shares were listed on the Uganda Securities Exchange in September, 2018, for the first time, following a successful Initial Public Offering during the year.

History

- The progressive journey of Cipla Quality Chemical Industries Limited (CiplaQCIL) dates back to July 10, 2005. Like most great companies and innovations, our establishment arose out of a national need. For Uganda, it was a national healthcare need that needed a timely intervention and response.
- During the initial stages of the HIV/AIDS epidemic, the Government of Uganda reached out and invited Cipla Limited, a leading Indian multinational pharmaceutical company headquartered in Mumbai to partner with Quality Chemicals Limited (QCL), an indigenous firm, to collaborate and manufacture affordable drugs in Uganda, to meet the challenges of treating HIV/AIDS patients.
- This was premised on the fact that over 60% of HIV/AIDS and 80% of malaria cases were in Sub-Saharan Africa (SSA) yet, the region manufactured only 1% of its required medicines.
- Also of concern was that the World Trade Organisation (WTO) Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement barred developed pharmaceutical manufacturing countries like India from supplying medications under patent at an affordable price. This posed a great threat for access to lifesaving medications for poor countries like Uganda.
- Fortunately, the TRIPS Agreement provided for a flexibility which allowed Least Developed Countries (LDC) like Uganda to set up pharmaceutical facilities and manufacture medicines that were still under patent.
- QCL took advantage of this flexibility and founded CiplaQCIL which today, is approved by the World Health Organisation (WHO) to manufacture antiretroviral, antimalarial and hepatitis medicines.

Our Guiding Principles

Vision

To become a centre of excellence in the manufacturing of quality, affordable and newer medicines.

Mission

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

Standards

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

Values

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

The goal of the design specifications for CiplaQCIL 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, regional and local regulatory standards.

Regulatory Approvals

DNDI

DNME-Angola

DPM-Ivory Coast

WHO

FDA Ghana

FMHCA Ethiopia

ICRC

ZAMRA-Zambia

KPPB Kenya

Mozambique

NDA Uganda

TFDA-Tanzania

NMRC Namibia

PMPB Malawi

RBC Rwanda

SSGMC-South Sudan

MOH Botswana

MCAZ Zimbabwe

CiplaQCIL Product Portfolio

No	Generic Name
1	Artemether + Lumefantrine Tablets 20/120mg
2	Lamivudine, Zidovudine & Nevirapine Tablets 150mg/300mg/200mg
3	Lamivudine and Zidovudine Tablets 150mg/300mg
4	Efavirenz Tablets 600mg
5	Lamivudine and Tenofovir Disoproxil Fumarate Tablets 300mg/300mg
6	Nevirapine Tablets 200mg
7	Efavirenz, Lamivudine & Tenofovir Disoproxil Fumarate Tablets 600/300/300mg
8	Tenofovir Disoproxil Fumarate Tablets 300mg
9	Entecavir Tablets 1.0 mg
10	Entecavir Tablets 0.5 mg
11	Dolutegravir (as Sodium), Lamivudine & Tenofovir Disoproxil Fumarate 50mg/300mg/300mg Tablets

Ms. Samina Vizaralli (Executive Vice-Chairperson Cipla LTD) launches capacity expansion from 80 million tablets a month to 130 million tablets a month on a two shift basis.

Business Performance Highlights

Our Performance at a Glance

Improving Healthcare

Malaria Cures

+25m

Improving Healthcare

HIV Patients Treated

>500 thousand

Capacity Increase

Capacity Increase

+30%

Regulatory Footprint

Aiming at 20 countries

(Registrations)

+9 countries

Developing Product Mix

Ushs 48.1 Billion ARV sales

+46%

Total Sales

Ushs 195.1 Billion

-14%

Operating Expenses

Ushs 49.9 billion

+4.6%

(Excl. One-offs and IFRS9 adjustments)

EBITDA

Largely Impacted by Sales Decline

13.5 Ushs Billion

Total Assets

Ushs 287 Billion

+78 Ushs Billion

Capital Investments

Ushs 12.4 billion Invested

Net Cash Flow from Operations

Ushs -51.2 billion

51.9 Ushs Billion Overdraft

Earnings per Share

Ushs (per share)

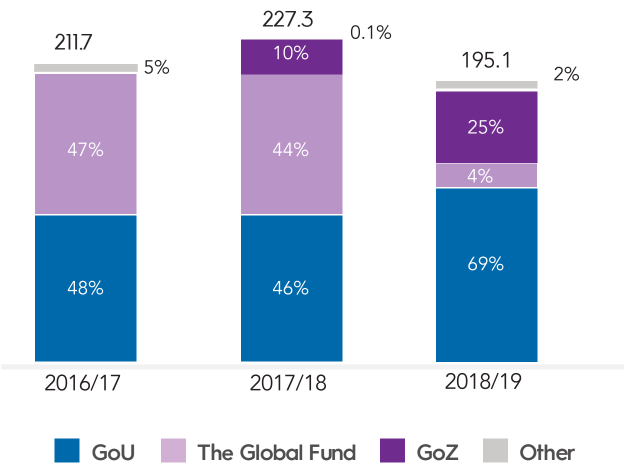
1.86

Key Performance Statistics for the Year

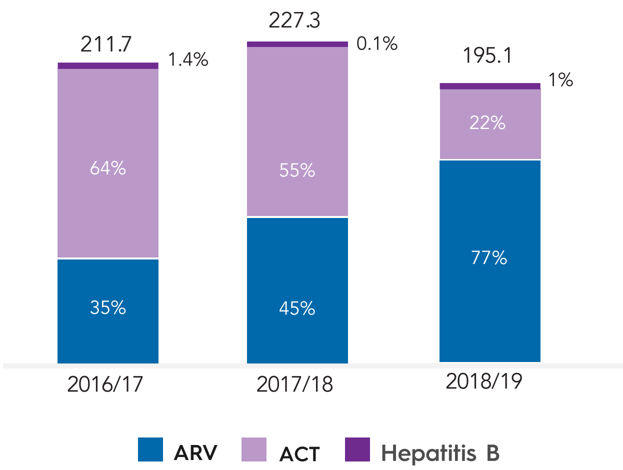
Financial Statistics	31 March 2019	31 March 2018
	Ushs	Ushs
For the year		
Revenue	195,136,338,342	227,315,026,586
Gross profit	69,591,539,415	96,383,349,311
Operating profit before depreciation and amortisation	13,492,069,119	50,623,341,434
Profit before tax	7,128,019,787	43,993,486,450
Profit for the year	6,785,732,826	44,627,238,430
At year-end		
Total assets	287,561,622,206	209,296,244,741
Shareholder's equity	168,310,259,115	174,089,249,148
Bank overdraft	51,918,877,981	-
Cash Flow data - for the year		
Net cash flows (used in)/generated from operating activities	(49,440,620,072)	46,154,718,089
Net cash flows used in investing activities	(1,260,414,790)	(38,250,916,733)
Net cash flows used in financing activities	(11,117,995,640)	(10,892,825,976)
Cash and cash equivalents at end of year	(51,204,549,122)	10,557,834,535

Revenue has grown rapidly in our non Global Fund related business mainly with the Government of Zambia and Uganda. Despite the change in product and customer mix, the revenue declined by 14.2% compared with previous financial year.

Sales breakdown by customer
UGX billion



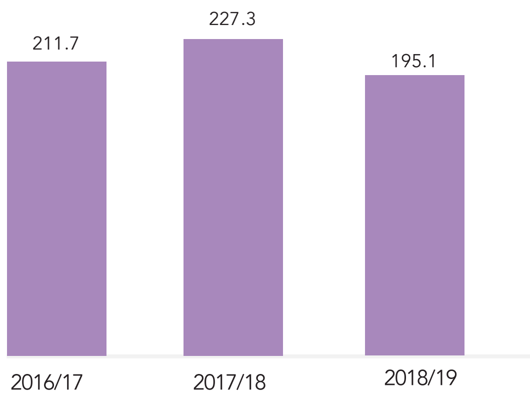
Sales breakdown by therapeutic area
UGX billion



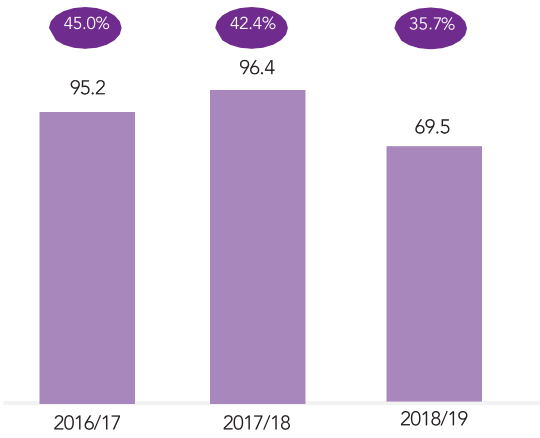
Annual Report 2018/2019

Gross profit has reduced over the period by 6.7% to 35.7%. The reduction in gross margin in 2018/19 compared to 2017/18 was due to a change in product mix, API price increases and pressure in tender prices.

Revenue
UGX billion

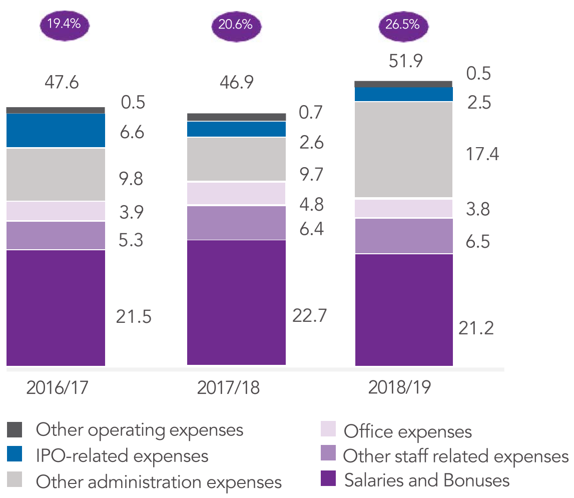


Gross profit and gross profit margin
UGX billion

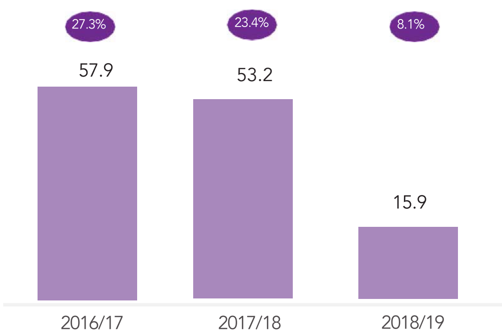


EBITDA for the year decreased Ushs 37.1 billion from last year's Ushs 53.2 billion to Ushs 15.9 billion due to a decrease in revenue and gross profit of Ushs 29.3 billion, increase in operating expense of Ushs 4.8 billion and a one-off losses in financial instrument's provision of Ushs 3.1 billion.

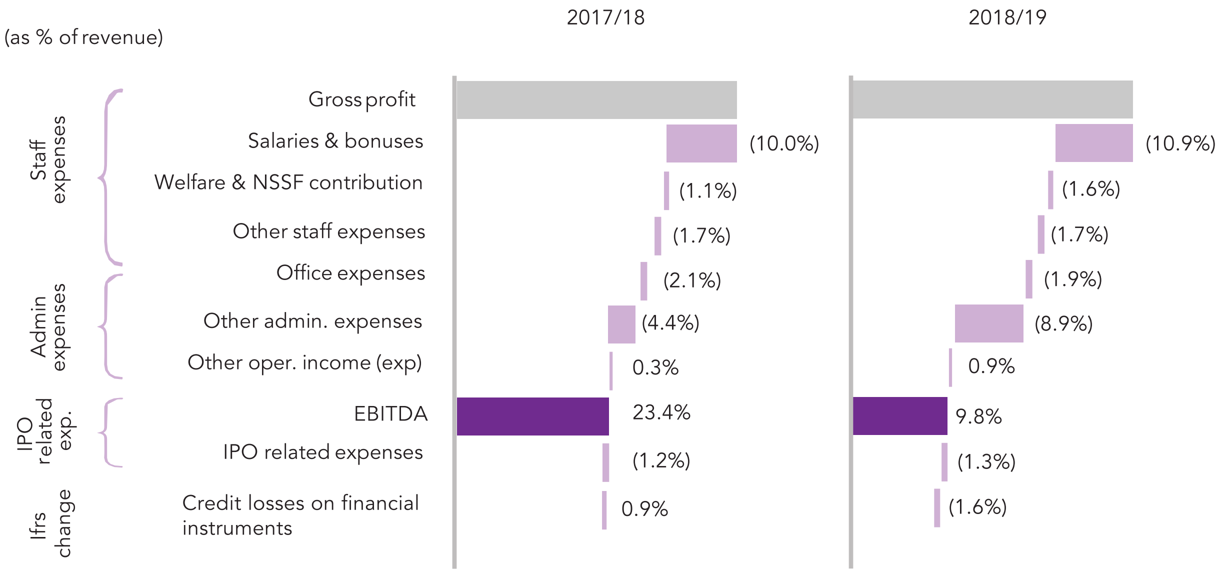
Operating expenses breakdown
(UGX billion)



EBITDA and EBITDA margin
(UGX billion)



Staff costs are the Company's largest operating expense, comprising about 14.2% of the total revenue in 2018/19. Staff costs include salaries, bonuses, welfare, pension contributions and other expenses such as training. Driven by economies of scale, as well as continuous production processes optimizations, the Company has managed to reduce staff costs from Ushs 29.1 billion in 2017/2018 to Ushs 27.7 billion in 2018/19.



Production

Capacity Expansion from 80 million to 130 million tablets.
Due to an increase in our client base with the addition of Government of Zambia, and a change in product mix by an increase in ARV (Antiretroviral) volumes vis a vis ACTs (Antimalarials), an upgrade of existing granulation, compression and packaging lines was undertaken in 2015.

Manufacturing and Packing

a. **Upgrade of Granulation II line by replacing the Fluid Bed Equipment (FBE) 500 Litres and 1,000 litres Rapid Mixer and Granulator (RMG) with FBE 1300 Litres & RMG 1,000 Litres.** This new line offers technological excellence with improved regulatory compliance while providing a seamless and efficient granulation process. It is a three in one unit consisting of a rapid mixer and granulator, fluid bed equipment and milling unit all integrated with pneumatic conveying systems and a closed loop. In addition, it has advanced process automation capabilities with multiple sensor functionalities that ensure robust temperature, humidity and pressure controls during product manufacture. The manufacturer is ACG Technologies India, a company with over five decades of expertise in pharmaceutical machinery.

b. **Replacement of two old Cadmach compression machines with Fette FE75 D 55 and Killian KTP 720X D51 models**. These two additions of the latest state of the art German compression machines employ some of the most advanced features in tablet manufacturing enabling the tabletting of the most complex formulations including bilayer tablets. The FE75D series has a patent-pending method for easy, fast turret exchange, provides a vibration damping mechanism to enable noise free operations and has an optimized aspiration system that ensures seamless operations.

c. **Fette Compacting machinery, the manufacturer has a global presence in four continents and is headquartered in Schwarzenbek, Germany**. It is a technology and world-market leader in the area of machinery for industrial tabletting. The Kilian KTP 720X series is another machine from the world renowned Romaco Kilian Germany, a Company with over 120 years of experience in process technology. It employs similar capabilities including patented wear free brake magnets with complete tableting automation from the filling to tablet compression and ejection process.

d. **Addition of HV1 CAM Cartonator 2 to the blister line to increase capacity in packing of blister monocartons**. This high calibre machine from Italy has a number of outstanding high-end features. The operator side of the HV is perfectly linear and accessible, allowing carton magazine loading to be carried-out with convenience and with large carton storage capacity. This feature also gives the operator full vision and total control of all the functions carried-out on the machine. It further has a patented new carton closure system, that gives the possibility of: carrying out format change without requiring the services of a specialized technician; eliminating fine tuning time related to the closure area; and absolute quality consistency of the final package. It is also equipped with the mechanical memory system, transforming complete size change-over into a series of rapid and pre-set operations, which can be carried-out by unskilled personnel in less than 10 minutes, eliminating the need for fine-tuning adjustments and allowing size change-over to coincide with actual production change-over.

Utility Expansion

To match the increased capacities at production the 253 CFM Air compressor was upgraded to 420 CFM while a Diesel generator of 1250KVA installed to augment the existing generator of 250 KVA.

Warehouse

A new warehouse was constructed with 3000 sqm space to increase capacity for in-house storage and discontinue use of the three third party warehouses. The warehouse has been in operation since January 2019. Once fully operational with rack installations it will have a capacity of 5,000 pallets.

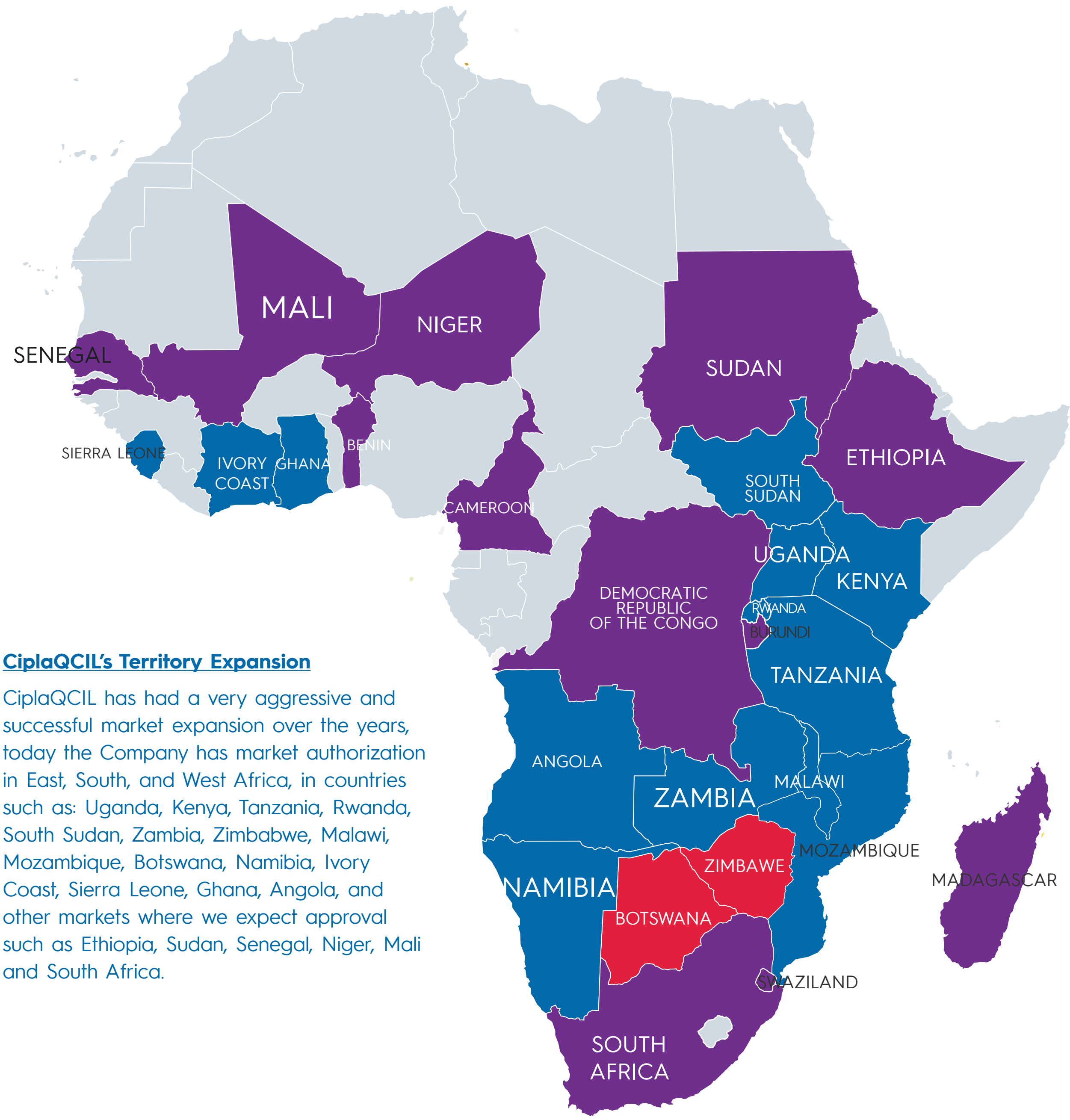
Quality Control Laboratory

A new bigger laboratory with two times larger space (630 sqm) is under final stages of civil works to match the increased capacity of manufacturing and enhance compliance to safety requirements. The laboratory is expected to be in use by October 2019.

In summary the above capacity expansion initiatives will enable the facility to increase its installed capacity from 80 million tablets to 130 million tablets a month. Use of the improved technologies have further brought in efficiencies by reducing production cycle times by 25% bringing in cost savings on utilities.

Newly constructed warehouse

CiplaQCIL's African Footprint



CiplaQCIL's Territory Expansion

CiplaQCIL has had a very aggressive and successful market expansion over the years, today the Company has market authorization in East, South, and West Africa, in countries such as: Uganda, Kenya, Tanzania, Rwanda, South Sudan, Zambia, Zimbabwe, Malawi, Mozambique, Botswana, Namibia, Ivory Coast, Sierra Leone, Ghana, Angola, and other markets where we expect approval such as Ethiopia, Sudan, Senegal, Niger, Mali and South Africa.

Key

- Approvals received during 2018.
- Approvals received during 2019.
- Applications submitted and approvals expected.

Flagging-off the first batch of medicines to Government of Zambia.

Sustainability Report

CiplaQCIL recognises the need for continued commitment to business sustainability through consideration of social, environmental and economic issues. The Company is cognisant of the need to enhance shareholder value through embracing ethical business practices. These ethical practices are entrenched in policies, operating procedures and company values.

Safety

Occupational Health and Safety (OHS) is paramount in CiplaQCIL as one of our core working standards. It is managed and monitored through Environmental Health and Safety (EHS) policies. The Company has also put in place a Health and Safety department to ensure a safe working environment.

CiplaQCIL strives to provide good working conditions for its employees and its visitors. In this regard, a clean risk-free environment is maintained. First-aid kits are provided in each department and trained fire marshals are available to support employees in the event of a fire. 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 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 supervised to ensure they comply with all policies in place.

OHS compliance monitoring activities like audits (internal and external), walkthrough inspections, sampling and analysis, trends and patterns, assessments, permits and certifications among others are undertaken. This is done not only to ensure the efficiency of the equipment is maintained but also ensure operations are undertaken in a safe and healthy manner.

OHS training that includes, induction for new staff, on job training, in house and external training, online education is provided to the entire workforce.

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 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 compliance with these procedures is monitored regularly.

Environment Management

Management has maintained a green environment at CiplaQCIL through tree and grass planting. 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 NEMA Regulations. This is in addition to the regular EHS inspections that monitor adherence to the environmental policies, rules, and regulations set out in the different permits and certificates issued by the different government lead agencies.

CiplaQCIL puts into consideration environmental concerns when making operational and strategic decisions. In this regard, 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/plant 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.

The Company owns and operates a fully approved and certified Effluent Treatment Plant (ETP) that handles both industrial and domestic wastewater generated through our operations in compliance with The National Environment (Waste Management) regulations SI 153-2. 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. A fully equipped ETP laboratory is in place to monitor discharge quality and to ensure discharge is within permissible limits as described in the National Environment (Standard for Discharge of Effluent into Water or on land) regulations, 1999.

In compliance with the conditions of approval of waste water 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 Waste Water 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 and approved solid waste handling companies as our partners, we fulfil our responsibility to ensure that all waste is destroyed and 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 and protection practices.

People

CiplaQCIL is cognisant of the role all 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. 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.

A performance management system is in place. Goal setting, performance monitoring and reviews are undertaken to ensure employees meet their objectives, and Company's objectives which ultimately enhances shareholder value. The review takes into consideration the upholding of Company values in delivering results and also recognises and rewards staff who excel in their performance.

CiplaQCIL is an equal opportunity employer and does not discriminate on gender, age, disability, ethnicity, religious grounds or nationality. 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 achievement of the organisation's set strategic objectives.

The categorization of CiplaQCIL staff is as follows:

	Category - Age (Years)	Number
1.	18 - 29	97
2.	30 - 39	145
3.	40 - 49	51
4.	50 - 59	05
5.	60 - 69	04
Total:		**302**

	Gender	Number
1.	Female	80
2.	Male	222
Total:		**302**

Sporting activities like corporate league games with other entities and participation in charity runs are arranged for staff to encourage healthy living and teamwork. The Company provides medical care for all employees and their dependents.

Internal Business Processes

Most of CiplaQCIL's processes are automated.

This not only promotes business continuity but also enhances our ability to promote a green environment by reducing paper usage. The process of rolling out a disaster recovery plan is underway and shall be completed by end of the current financial year.

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.

Social Responsibility

- **Internship**

CiplaQCIL runs a competitive internship programme in partnership with public universities from Africa with a bias to science-related industrial training. Over 70 interns are housed at the premises for an average of three months every year.

During this period, participants receive intensive on the job training which equips them with enhanced skills and practical experience.

CiplaQCIL offers internship opportunities to third year undergraduate students in Uganda once a year. Our internships are designed to give students practical experience by exposing them to world-class standards and challenging them to solve problems and formulate ideas for improvement.

- **Medicine Donations**

CiplaQCIL supports local Non-Governmental Organizations with malaria medicines (ACTs) for free medical camps in communities where access to treatment and healthcare is difficult. This promotes access to quality medicines to communities that would not ordinarily afford some of these treatments.

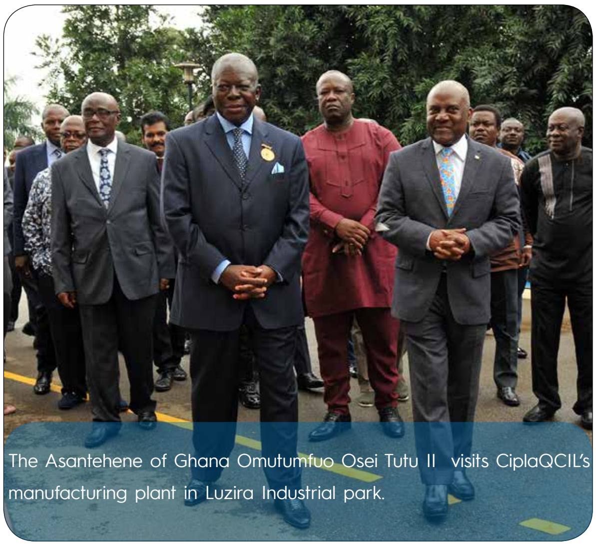
- **Stakeholder Engagements**

CiplaQCIL operates in a highly regulated environment that requires engagement of key stakeholders at different levels to communicate, align and understand the different regulatory requirements. The Company undertakes these through different platforms such as town hall meetings. This has created a good working relationship with our various stakeholders.

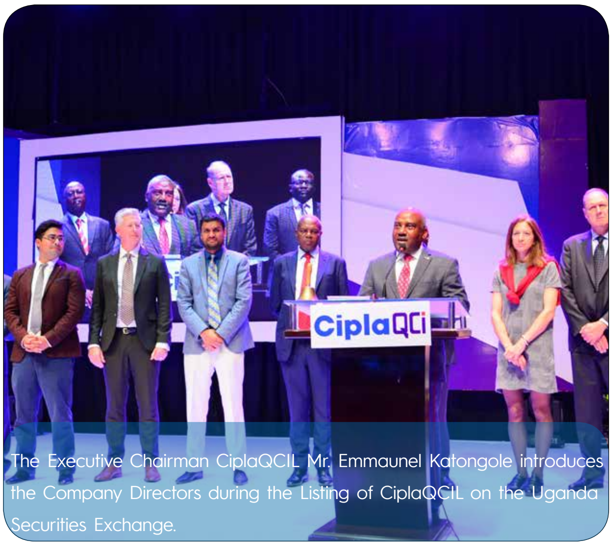
Dr. Diana Atwine the Permanent Secretary Ministry of Health, prepares to administer a medical checkup on the Mayor of Nakawa Division Mr. Ronald Balimwezo during a community awareness and screening of Non-Communicable Diseases which took place within the division and was supported by CiplaQCIL, Sanctuary Medical Foundation and Uganda Peoples Defense Force.

Our year in pictures

Ms. Samina Vaziralli and Mr. Emmanuel Katongole during the opening of the newly constructed warehouse at CiplaQCILS's manufacturing plant in Luzira industrial park.



The Asantehene of Ghana Omutumfuo Osei Tutu II visits CiplaQCIL's manufacturing plant in Luzira Industrial park.

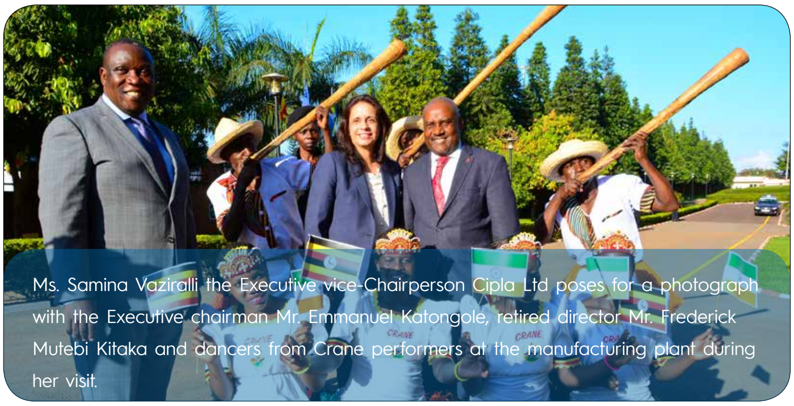


The Executive Chairman CiplaQCIL Mr. Emmaunel Katongole introduces the Company Directors during the Listing of CiplaQCIL on the Uganda Securities Exchange.

CiplaQCIL donates to Nakawa Division in support of a charity walk and medical camp.

CiplaQCIL staff in a group photograph with The Prime Minister of Buganda Kingdom his Excellency Charles Peter Mayiga at Kabaka's Birthday Celebration. Run.

Blood donation drive at CiplaQCIL's manufacturing plant in Luzira Industrial Park.



Ms. Samina Vaziralli the Executive vice-Chairperson Cipla Ltd poses for a photograph with the Executive chairman Mr. Emmanuel Katongole, retired director Mr. Frederick Mutebi Kitaka and dancers from Crane performers at the manufacturing plant during her visit.

The newly installed Kilian KTP 720X series.

CiplaQCIL conference on building capacity to mitigate the burden of cancer in Uganda. Third from left is Ms. Samina Vaziralli Executive vice-chairperson Cipla LTD and next to her is the Hon. Minister of Health Dr. Aceng Ruth.

USAID Mission Director Mr. Mark Meassick plants a tree during his visit to CiplaQCIL manufacturing plant as the Executive Chairman Mr. Emmanuel Katongole and the CEO Mr. Nevin J. Bradford look on.

Executive Chairman's Statement

Emmanuel Katongole
Executive Chairman

It is with great pleasure that I present to you the Annual Report and Financial Statements of Cipla Quality Chemicals Industries Limited (CiplaQCIL) for the year ended 31 March, 2019.

Business Overview

At CiplaQCIL, our desire is to provide self-sufficiency to the people of Uganda and the region for the treatment for Africa's most dreaded diseases (malaria, HIV/AIDS and hepatitis B) through the provision of more affordable, quality and efficacious medicines. We are proud to be one of the few WHO, current Good Manufacturing Practices (cGMP) compliant pharmaceutical plants in Sub-Saharan Africa manufacturing WHO-prequalified first line treatments for both HIV/AIDS and malaria. Our facility is approved in 13 countries and we hope to be registered in 20 African countries by December, 2020. In addition, our product portfolio has increased to 10 generics for the treatment of malaria, HIV/AIDS and hepatitis B. This translates into increased market opportunities for our products and a bigger market share.

CiplaQCIL operates in a highly regulated business environment. We are cognisant of the impact any lapse in compliance with approved standards could have on the environment and our consumers. Our commitment to meeting the regulatory standards is therefore unfettered. This provides assurance on the quality of our products and their effectiveness.

Financial Performance

In the past financial year, there was a decline in gross profit margin with a reduction in the net profit from Ushs 44.6 billion to Ushs 6.8 billion. This was majorly attributed to a reduction in Global Fund sales allocation, which in the previous year was Ushs 99.5 billion to Ushs 7.4 billion. Our continued support from the Government of Uganda and the regional off-take in Zambia has partially compensated for this decline by Ushs 54.5 billion.

We do not expect the trend in the Global Fund sales allocation to change, however we are confident that with the measures in place, our Company shall recover and register sound financial performance in the future years. Demand for our products is not expected to decline and we hope that the increased approvals in Sub-Saharan African countries will translate into increased market opportunities for our products.

Dividend

The Board shall not be recommending a dividend to the AGM for approval. This is owing to the need to ensure capital adequacy to meet the Company's obligations and to seize any emerging business opportunities.

Strategy

Our business goal is to increase the product portfolio by coming up with new medicines for the treatment of marginalized or dreaded diseases, and to influence the regulatory environment in Africa to create a conducive business environment that promotes the pharmaceutical business. This will be our objective in the coming years.

In September 2018, the Company was listed on the Uganda Securities Exchange. This was a development for the organization. We believe that listing on the stock exchange provides CiplaQCIL with an opportunity to obtain insightful direction and build partnerships that will ultimately enhance shareholder value and lead to the achievement of our objective of increasing access to affordable quality medicines manufactured in Africa.

The Board

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.

In the past financial year, the Board underwent a few changes with the retirement of three Non-Executive Directors (Ms. Beth Mandel, Mr. Zain Latif and Mr. Chandru Chawla). The Board also appointed Mr. Joseph Baliddawa and Dr. Peter Mugyenyi as Independent Non-Executive Directors of the Board until the next Annual General Meeting where they shall be presented for confirmation by shareholders. I would like to take this opportunity to thank the outgoing directors for their invaluable contribution to the Company and wish them the best for the future. I also welcome the new directors to the CiplaQCIL family. We look forward to tapping into the wealth of knowledge and experience they bring to the team.

Stakeholder Engagement

We remain committed to stakeholder engagement and we in the past financial year continuously engaged our stakeholders with a view to addressing 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.

As a company newly listed on the Uganda Securities Exchange, we hope to create avenues for regular and constructive dialogue with our shareholders to align their interests with the Company objectives.

Future Outlook

We intend to be registered in 20 countries in Africa by 2020. This provides business opportunities for our company as it provides a platform to build partnerships in new markets. We also hope to increase our product portfolio.

Discussions on this are underway and shareholders shall be notified once a position on the matter has been reached. We are very optimistic that CiplaQCIL will continue to grow. We do not expect the journey to be smooth but with the competent Board in place, we are confident that the strategy in place and the commitment to our vision and mission is sufficient to steer us to greater heights and to create sustainable shareholder value. We are confident that our financial performance in the next financial year will be much better and we look forward to your continued support to the Company.

Conclusion

On behalf of the Board of Directors, I extend my sincere gratitude to our shareholders for believing in our vision and mission and for investing in the Company. We look forward to growing with you in the next financial year.

I wish to thank the Government of Uganda, our regulators, customers, partners and any other stakeholders for walking with us through this journey. We look forward to your continued support.

I also extend my sincere gratitude to the management and staff for their hardwork and dedication. Together we shall become a centre of excellence in manufacturing of quality, affordable and newer medicines.

Emmanuel Katongole
Executive Chairman

CEO's Statement

Nevin Bradford
Chief Executive Officer

Dear Shareholder

On behalf of the Board I am pleased to present our 2018/2019 report highlighting the performance and main developments of the business. 2018 was an important year for CiplaQCIL's history, as we listed on the Uganda Stock Exchange (USE) while we continued our work to provide quality and affordable medicines for the treatment of malaria, HIV/AIDS and hepatitis B.

It was a year in which we further strengthened our positioning in the region, while we worked towards the improvement of our performance despite the key challenges that the industry and market faced. The key priority remained to ensure that we were setting up the enablers for the long-term growth that we are expecting. Although there has been some improvement in this regard, such as the expansion of the manufacturing capacity and the validation of the new warehouse, there is still some work to be done in the coming period.

With respect to our overall operating performance, in the first half of this year, CiplaQCIL completed its Ushs 12 billion, 4,500 pallet storage facility, distribution centre and warehouse that will enable the consolidation of several existing facilities and will provide ample warehousing to support future growth. In addition, CiplaQCIL completed a significant capacity enhancement project that has increased its monthly output capacity by 30% to approximately 130 million tablets per month.

In addition to its WHO pre-qualification, CiplaQCIL has been approved by national regulatory bodies across Africa, including Uganda, Kenya, Rwanda, Tanzania, Namibia, Ivory Coast, Zambia, Zimbabwe, Malawi, Mozambique, Ghana, Ethiopia, Angola and South Sudan.

Significant headwinds were faced in the last financial year. The decline in the Global Fund (GF) business was mainly due to the re-direction of funds from cure (medicines) to prevention. In addition, and across the funded markets, increased competitiveness lead to price drops in both ARVs and ACTs. In the light of this, the Company is reviewing its strategic direction in search of future opportunities to improve competitiveness and financial performance in the long run.

The margin challenges highlighted the need for strategic relationships to secure the supply of the Active Pharmaceutical Ingredients (API) at competitive prices. This remains a key focus area for the business in the current year.

To address the decline in the GF business CiplaQCIL operationalized its long-term supply agreement for the supply of life saving, quality, affordable medicines with the Republic of Zambia. This, in addition to its agreement with the GoU and the supply contract with the GF, enabled CiplaQCIL to supply more than 25 million malaria treatments across Africa as well as ARV's to more than 500,000 patients living with HIV in Uganda and Zambia.

We are extremely proud to announce that we recently secured the first ever tender award by the USA President's Malaria Initiative (PMI) for WHO Prequalified antimalarials to an Africa based manufacturer. This has been a work in progress over the past four years and shows the trust placed in our world class manufacturing facility.

First orders have been received and delivery should commence in the next three months in accordance with the requirements set out by PMI. CiplaQCIL is strategically placed to maximize this opportunity due to the in-market presence, cost advantage due to lower freight charges versus non-African based manufacturers and our heightened ability to respond quickly to orders.

Financial Results

Despite achieving growth of 46% from our non-Global Fund related business vs FY18, overall company revenue declined by 14.2% from Ushs 227.3 billion to Ushs 195.1 billion. The PMI award referenced above is one example of how we are constantly in search of alternative revenue streams and product opportunities to future proof our business. Based on the current trend in Q1 we can expect some recovery in the GF business in FY20.

Gross Margin decreased by Ushs 26.8 billion to Ushs 69.6 billion largely due to the reduction in revenue. The gross margin percentage reduced by 6.7% to 35.7% which was due to a change in product mix and pressure in tender prices.

Operational Costs increased by Ushs 7.9 billion. Additional expenditure related mainly to increased marketing and sales costs, the once-off IPO related (Ushs 2.5 billion) costs and adjustments based on IFRS9.

Profit for the year decreased to Ushs 6.8 billion, compared to Ushs 44.6 billion in the prior year, largely due to the reduction in revenue and drop in gross margin percentage. Cash and cash equivalents at end of year also came under pressure and decreased by Ushs 61.7 billion. This was largely attributable to an increase in inventory to de-risk supplies out of China, an increase in receivables, investments in capex as well as the dividend payment. Post the end of the reporting period, receivables of Ushs 24.8 billion have been received, significantly improving this position.

Building on our progress in 2018, we are well positioned to navigate the increasing complexity and competitiveness of our industry, including the pricing and access required for malaria, HIV/AIDS and hepatitis treatments. We will continue to draw on our competitive advantage to deliver affordable and quality medicines. Now that we are well into the new financial year, the focus is on taking full advantage of the new regional business opportunities to return an even better financial result. We are mindful of the expectations of our shareholders and we shall work to meet them.

Nevin Bradford
Chief Executive Officer

Our Board of Directors

Mr. Emmanuel Katongole
Executive Chairman

Mr. Katongole was a Founding Chief Executive Officer of Cipla Quality Chemical Industries Limited and was promoted to the position of Executive Chairman in November 2013. Previously, he served as Managing Director and shareholder of Quality Chemicals Limited (the local firm that partnered with Cipla to form CiplaQCIL). He has a wealth of experience in senior management and leadership positions.

Mr. Katongole is also the Founder of Vero Food Industries - a food and beverage company; an independent Non- Executive Director of Barclays Bank (U) Ltd; Chairman of the Uganda National Oil Company and Chairman of the Advisory Board of London based TLG Capital Ltd. He is a member of the Initiative for Global Development (Frontier 100) - a prestigious group that joins the most successful business leaders operating in frontier markets.

Besides numerous nominations, Mr. Katongole has won several business awards. He was the East African Winner and representative at the 2013 Ernst and Young World Entrepreneur of the Year Awards in Monte Carlo, bagged the 2012 Africa Business Leadership Award and the 2012 Africa Entrepreneurship Award.

He is a Rotarian who has steadily and diligently served as District Governor for Rotary District 9211 which comprises of Tanzania and Uganda and currently serves as Endowment and Major Gifts Advisor for Africa. He is a multiple Major Donor to the Rotary Foundation.

Mr. Katongole holds a Master of Arts Degree in Economic Policy and Planning and an Honors Bachelor of Statistics degree, both from Makerere University.

Mr. Nevin J Bradford
CEO

Mr. Bradford was appointed Chief Executive Officer and Executive Director of Cipla Quality Chemical Industries Limited, on 26 November 2013.

A graduate of Cambridge University, Nevin has over 30 years' experience in the pharmaceutical industry cutting across consumer health, personal care, branded and generic products. His career profile spans across a range of senior sales, marketing and general management positions in both multinational and generic pharmaceutical companies in Russia, Indonesia, Saudi Arabia, Africa, China and Europe.

Prior to joining Cipla, Mr. Bradford was head of Ranbaxy, UK and formerly Managing Director of Ranbaxy's JV in China-Ranbaxy Guangzhou China Ltd. Mr. Bradford spent 17 years with GSK in a range of senior commercial roles in Africa (Regional Manager), Saudi Arabia (General Manager), Indonesia (Sales and Marketing Director) and Russia (Marketing Director).

He has also had stints with Novartis Consumer Health (General Manager Russia), Pharmacia Consumer Health (Area Director Africa, Middle East and Eastern Europe) and E.C De Witt (Commercial Director).

Mr. George Baguma
Executive Director

Mr. Baguma is a founding Director and was also the founding Chief Commercial Officer at Cipla Quality Chemicals Ltd from 2000 to 2005.

George is a former Deputy Commissioner at the Directorate of Animal Resources in the Ministry of Agriculture, Animal Industries and Fisheries in Uganda.

Mr. Baguma has a degree and postgraduate diploma from Makerere University and a master's from Imperial College London.

Mr. Paul Miller
Non-Executive Director

Mr. Miller was appointed CEO Cipla, South Africa in October 2013. Before that he worked for Mylan as Vice President & Managing Director in South Africa from 2008 to 2013.

He was based in China from July 2005, where he held the position of Marketing Director for AstraZeneca, China. He successfully built and launched brands that were market leaders in China in the areas of cardiovascular, gastrointestinal, respiratory and anaesthesia.

Prior to this assignment, he spent four and half years within global oncology marketing based in the UK, first as a Strategy & Portfolio Manager and then as Global Brand Manager. This global experience allowed him to lead and deliver a number of innovative and novel programmes to support the US, Asian & European market launches.

Dr. Ranjana Pathak
Non-Executive Director

Dr. Ranjana leads Cipla's Worldwide Quality enterprise throughout the product's lifecycle from development to commercialization. Dr. Ranjana has over three decades of experience in the pharmaceutical industry in the USA, and has held senior leadership positions with increasing responsibilities in various organizations.

She worked for branded and generic companies such as Watson/Actavis, Endo/Dupont Pharmaceuticals, Zenith Goldline, Thames Pharmacol, with extensive experience in dealing with regulatory bodies such as FDA, MHRA, ANVISA, MCC to name a few.

Dr. Ranjana served in the role of Sr. Vice President of Global Quality for Watson/Actavis Pharmaceuticals, and was responsible for worldwide quality. Prior to Watson/Actavis, she worked as Vice President of Quality and Compliance at Endo Pharmaceuticals where she had the privilege of creating commercial QA and R&D Quality Assurance department. Products ranged from solids (mainly narcotics), patches, suppositories, devices. She was actively involved in Pre-clinical and Phase 1 through Phase 3 trials.

Dr. Ranjana has a Doctorate in Health Administration from the University of Phoenix, an MBA from Dowling College, and a Bachelors of Science (Honors) in Chemistry from Mithibai College of Arts and Chauhan Institute of Science, Mumbai. She has a Post Graduate Diploma in Pharmaceutical and Chemical Analysis from Sophia College and has undertaken a Leadership course in Pharmaceutical and Biologics from Harvard University.

She published learned articles and lectured in many pharmaceutical courses and seminars on various topics (validation, PQR/APR, Compliance issues).

Dr. Ranjana was awarded the Rising Star award in 2006 by Healthcare Business Association.

Mr. Nishant Saxena
Non-Executive Director

Mr. Saxena is the Global Chief Strategy Officer at Cipla, having initially joined Cipla in 2013 as Chief Financial Officer for India.

Prior to joining Cipla, Mr. Saxena founded and ran Elements Akademia, an award winning social enterprise for seven years and was recognised by World Bank-IFC as a High Impact Entrepreneur. Previously, Mr. Saxena worked as Deputy Chief Financial Officer and Head of M&A at Procter & Gamble India.

Mr. Saxena holds a Bachelor's degree in Production Engineering from National Institute of Technology, Trichy (India), an MBA from Indian Institute of Management, Lucknow (India) and has also done an advanced course on entrepreneurship from University of Chicago-Booth School of Business.

Mr. Mark Daly
Non-Executive Director

Mr. Daly has been with the Cipla Group for more than 11 years with more than 10 of those years in a FD/CFO role. He is currently serving as the Regional CFO (including South Africa, East Africa Private Market and our Global Access Business). Within Cipla, he has held the positions of CFO and Executive Director of the listed entity before Cipla Medpro was sold to Cipla Limited (India). He was integral in the sale of the business and de-listing process while he was Financial Director at the manufacturing facility in South Africa and Company Secretary when the company was listed.

Mr. Daly is a chartered accountant and holds a B.Com Honours degree in accounting from the University of Natal, Pietermaritzburg. He previously held managerial roles in the Corporate Finance and Auditing departments of one of the Big 4 Accounting Firms and had two short stints working abroad (London and Mozambique).

Dr. Abofele Bogosi Khoele
(Alternate to Dr. Ranjana Pathak)

Dr. Abofele Bogisi Khoele was appointed a Director in July 2016. He is a graduate of University of Cape Town with six years of clinical experience and over 10 years of pharmaceutical industry experience.

Prior to appointment to the Board of CiplaQCIL, he was Head of Clinical Research Operations at Novartis Pharma SA, and served on the Boards of Novartis Pharma SA and Adcock Ingram Healthcare.

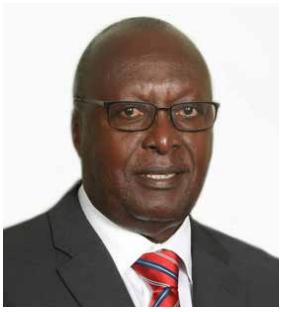
Mr. Samuel Acuti Opio
Company Pharmacist

Mr. Opio is the Company Pharmacist of CiplaQCIL. He joined the Company in 2007 starting off as a Quality Assurance Pharmacist. He previously worked with Kwality Afro-Asia a local drug manufacturing facility and has 13 years of experience in Pharmaceutical manufacturing.

Mr. Opio Samuel holds a Bachelor of Pharmacy degree and Masters of Science in Pharmacology from Makerere University. He has also undergone executive education from Strathmore Business School under the CEO Summit Forum. He is a member of the Council of the Pharmaceutical Society of Uganda, and has also served as its Secretary since October 2011.

He is a member of the META (Medicine Transparency Alliance) Council and further sits as a member of the steering committee of the Mbarara University of Science and Technology Pharmbiotrack World Bank project. He previously served as the Chairperson of the Quality Chemical Staff SACCO between 2014 and 2018. He has received numerous awards from the Pharmaceutical sector and beyond including being among the New Vision 2018 top 40 Ugandans under the age of 40. He is the patron of the International Pharmacy Students Federation Africa Chapter 2019.

He has spoken at numerous national, regional and international conferences both as a motivational speaker and as a Pharmaceutical sector leader.

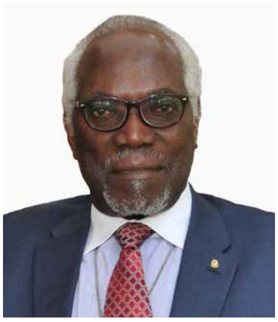


Prof. Peter Mugyenyi
Independent Non-Executive Director

Prof. Mugyenyi is a holder of a Bachelor of Medicine and Surgery (MB ChB), Fellow of the Royal College of Physicians of Ireland (FRCPI), Fellow of the Royal College of Physicians (Edinburgh) (FRCP Edin), Doctor of Science (ScD(h)), is a Ugandan paediatrician, researcher and specialist on HIV/AIDS and related conditions. He was Executive Director of Joint Clinical Research Centre until his retirement. He was among the pioneers who introduced use of ARVs in Africa, as well as development of an effective model for scaling up ARVs in resource limited countries.

Prof. Mugyenyi has been a principal investigator on dozens of landmark research projects some of them funded by National Institutes of Health (NIH), European Union, WHO and Medical Research Council (MRC). His research and publications cover a wide spectrum of HIV/AIDS, related diseases and other medical conditions. Specific areas of his research include: paediatric and adult HIV treatment, drug trials, HIV resistance, HIV prevention, immunological studies including HIV vaccine trials, pharmacokinetic, molecular and epidemiological studies as well as social and economic impact of HIV.

Internationally, he has served as a board member on a number of institutions and organizations in Africa, UK, India and the USA. Other roles include membership of various advisory boards including HIV Vaccine Trials Network, USA, Massachusetts General Hospital and Institute of Medicine of the National Academies, USA and the Joint United Nations Programme on HIV/AIDS (UNAIDS) 90-90-90 initiative to end the HIV epidemic, among others.



Mr. Joseph Baliddawa
Independent Non- Executive Director

Mr. Baliddawa is a former partner of PricewaterhouseCoopers Africa (PWC), having spent 34 years with PWC in a variety of roles in UK, Zambia and Uganda. He is a Fellow of the Association of Chartered Certified Accountants (FCCA), a Member of the Institute of Certified Public Accountants of Uganda (CPA) and a Founder Council Member of both the Institute of Certified Public Accountants of Uganda and the Zambia Institute of Chartered Accountants (ZICA). He is a Member of the Association of Chartered Certified Accountants.

Mr. Baliddawa has extensive experience in management and leadership roles, specifically in country management, formulating and monitoring the implementation of PWC's strategic growth plan for Africa, risk, quality and compliance standards management and firm wide financial management and reporting.

Mr. Baliddawa is a Ugandan national and is currently President of the Institute of Corporate Governance of Uganda, Chair of the Audit Committees of the Commercial Bank of Africa, Alliance Africa General Insurance Limited and New Vision Group, and a Board member of all three organizations. He is Chair of the Uganda-Norway Friendship Association, a Member of the Council of Uganda Martyrs University and Chair of its Audit Committee.

He has received awards from the World Bank, national and international accountancy organizations and Lions Club International. He undertook his professional education at the London School of Accountancy obtaining membership of the Association of Chartered Certified Accountants (ACCA).

Leadership and Management Team.

Mr. Emmanuel Katongole
Executive Chairman

Mr. Nevin J. Bradford
CEO

Mr. George Baguma
Executive Director

Mr. Samuel Acuti Opio
Company Pharmacist

For full profiles refer to page 34, 35 and 37

Mr. Fabian Cazares
Head of Finance

Mr. Cazares was appointed as Head of Finance, Cipla Quality Chemical Industries Limited, on 17 September 2018.

Prior to joining CiplaQCIL, he held leadership positions as CFO for Philips Group Southern Africa and CFO Africa, where he successfully built and launched the business across Africa in the areas of consumer business, mother and child care and healthcare. He has led different finance positions across other emerging and frontier markets in healthcare and consumer sectors where he was responsible for restructuring and growing those businesses.

Mr. Cazares holds a Masters in Finance and Strategy from the University of Oxford and has completed a finance programme in Public Private Partnerships (PPP) from Harvard University.

Ms. Doreen Pachuto Awanga
Company Secretary

Ms. Awanga Joined CiplaQCIL in June, 2019.
She holds of a Bachelor of Laws degree from Makerere University and is a member of the Uganda and East African Law Societies. She is an advocate of the High Court of Uganda and an Associate of the Institute of Chartered Secretaries and Administrators (ICSA).

Prior to her appointment she was employed as a Legal Manager, in the energy and media sectors.

Mr. Ravi Reddy
Chief Operating Officer

Mr. Reddy has been the Chief Operating Officer at CiplaQCIL since 2007. He oversees manufacturing and all production related areas. He has over 23 years' experience in quality pharmaceutical manufacturing.

Prior to CiplaQCIL, Mr. Reddy worked as Unit Head at Golden Cross Pharma, as Production Executive with Wockhardt Ltd and also with Khandelwal Laboratories and Dupen Laboratories.

Mr. Reddy holds an MBA from Jaipur National University, India, a Bachelor of Pharmacy degree from Bangalore University, India and a Diploma in Production Management from the All India Institute of Management Studies (AIIMS).

Mr. Atul Vadepalli
Quality Assurance Manager

Mr. Vadepalli has been the Quality Assurance Manager at CiplaQCIL since 2007. Prior to this, Mr. Vadepalli worked with Cipla India, in quality assurance from 2002. He has over 17 years of experience in pharmaceutical quality assurance and holds a Bachelor's degree in Pharmacy from Pune University in India.

Mr. Harrison Kiggundu
Human Resource Manager

Mr. Kiggundu has been the Human Resources Manager since 2009. Prior to this, he worked for Uganda Breweries Limited, first as a Brewer and rose through the ranks to the level of Packaging Manager, Capability Development Manager and Human Resources Manager. Now with over 20 years of experience, Mr. Kiggundu holds a BSc in Food Science & Technology from Makerere University, a Diploma in Brewing from Herriot Watt University UK, a post Graduate Diploma in Human Resources from Uganda Management Institute (UMI) and a Masters in Human Resources from UMI.

Statement of Corporate Governance

CiplaQCIL is a public Company listed on the Uganda Securities Exchange effective 17 September, 2018. The Company is governed by the Companies Act, the Uganda Securities Listing Rules and the Capital Markets Code of Corporate Governance Guidelines. Following the Listing on the Uganda Securities Exchange, the Company is in the process of setting up a governance framework in line with the Legal Requirements and best practices in order to uphold the principles of accountability, transparency and fairness.

This Corporate Governance Statement sets out the governance framework of CiplaQCIL, key activities undertaken in the past Financial Year and planned activities for the next financial year.

The Board

The ultimate responsibility of the Board is to offer strategic oversight with the objective of enhancing shareholder value and ensuring the long-term success of the Company.

The Board sets the Company's strategic direction, mission and values. It also approves policies to ensure they are aligned with the business objectives. The Board also approves the budget and financial statements and monitors performance against set objectives.

Board Composition

The Board is currently composed of Ten (10) members: Four (4) Executive Directors and Six (6) Non-Executive Directors. The Non-Executive Directors bring to the Board independent judgement and expertise, and offer constructive challenge, strategic guidance and specialist advice which promotes effective discourse and valuable insights.

The diverse range of skill and experience on the Board enhances decision making as it brings different and encourages consideration of diverse viewpoints before a decision is made. Executive Directors as the implementors of strategy and board decision provide useful insight and perspective of business and market realities enabling the Board to contextualize their decisions.

The composition of the Board is currently as follows:

	Director	Classification	Nationality
1.	Mr. Emmanuel Katongole	Executive Director	Ugandan
2.	Mr. Nevin J. Bradford	Executive Director / CEO	British
3.	Mr. George Baguma	Executive Director	Ugandan
4.	Mr. Joseph Baliddawa	Non-Executive Director	Ugandan
5.	Mr. Mark Daly	Non-Executive Director	South African
6.	Mr. Paul Miller	Non-Executive Director	South African
7.	Mr. Nishant Saxena	Non-Executive Director	Indian
8.	Dr. Peter Mugyenyi	Non-Executive Director	Ugandan
9.	Dr. Ranjana Pathak	Non-Executive Director	American
10.	Mr. Samuel Opio	Executive Director	Ugandan
11.	Dr. Abofele Bogosi Khoele	Alternate to Dr. Ranjana Pathak	South African

Board Terms of Reference

The Board is governed by the Company's Articles of Association and the respective Committees Terms of Reference.

The Articles of Associations of the Company allow for rotation of directors who have served on the Board for three years. This being the 1st Annual General Meeting of the Company following its listing on the Uganda Securities Exchange, four Non-Executive Directors, namely, Mr. Paul Miller, Mr. Mark Daly, Mr. Nishant Saxena and Dr. Ranjana Pathak shall be presented for rotation.

The Board also appointed Dr. Peter Mugyenyi and Mr. Joseph Baliddawa to fill a casual vacancy and shall be presented to shareholders for approval at the Annual General Meeting (AGM).

The Board is also comprised of four Executive Directors who are employees of the organisation.

The directors are aware and mindful of their fiduciary duty to act in the best interest of the Company. The role of the Chairman and the CEO are separate and distinct which creates a balance of authority and power within the Board.

Strategy

The Board is cognisant of its responsibility in setting the Company's strategic direction and continued to play its role in determining and reviewing progress in implementation of the Company's strategic initiatives.

The Board is also working on several strategic initiatives aimed at enhancing shareholder value and ensuring sustainability of our business. We remain committed to supporting Africa in achievement of the UN Sustainable Development Goals by supporting the health sector fighting Africa's dreaded diseases and improving livelihoods. Our mission to provide quality, affordable medicine remains our guiding pillar.

Board Trainings and Induction

The Board acknowledges the need for training of the directors to ensure that they are empowered with relevant knowledge and skills to enable them to fulfil their mandate and to keep them abreast of developments in the sector.

In the next Financial Year and to keep abreast with emerging corporate governance practices and legal obligations, the Board shall undertake training on obligations arising from Listing on the Uganda Securities Exchange.

Conflict of interest

The Board complies with the provisions of the Companies Act and the Board Charter on declaration of the existence of any actual or apparent conflict of interest. In this regard, the Directors before commencement of any meeting and in the course of business are required to disclose any existing potential conflict of interest.

Board Meetings

The Board meetings are structured in such a way as to allow open discussion.

All substantive agenda items are supported by board papers to ensure the Directors have sufficient information to enable proper decision making. To ensure productivity of meetings, Board papers are circulated in advance to provide directors with ample time to consider the agenda items.

The CFO and other senior managers are invited to the meeting to provide additional information where required.

Minutes are approved and signed at the meeting following the one for which they were captured as a record. A record of Minutes is maintained by the Company Secretary.

An action log from each meeting is formulated and management is kept accountable for implementation of agreed actions arising from the minutes.

Ordinary Board Meetings

The attendance of the Ordinary Board Meetings for the period April, 2018 to June March, 2019 was as set out in the table below.

	13 Feb. 2019	17 Sept. 2018	14 May 2018
Mr. Emmanuel Katongole	✓	✓	✓
Mr. Nevin Bradford	✓	✓	✓
Mr. George Baguma	✓	✓	x
Mr. Samuel Opio	✓	✓	x
Mr. Mark Daly	✓	✓	✓
Mr. Paul Miller	✓	✓	✓
Mr. Joseph Baliddawa	✓	N/A	N/A
Dr. Ranjana Pathak	✓	✓	x
Dr. Peter Mugyenyi	✓	N/A	N/A
Mr. Nishant Saxena	✓	✓	✓

✓ - Present **X** - Absent with Apology **N/A** - Not Applicable

Board Committees

The Board Committees are constituted to facilitate effective fulfilment of the Board's mandate. The committees operate under Terms of Reference set by the Board. The committee Terms of Reference lay down the roles, responsibilities, scope of authority, composition and the procedures to be followed by members.

The committees are comprised of at least three members of the Board and are chaired by Non - Executive Directors.

- **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, financial statements and result publications.

A detailed report of the committee is contained on page 47.

- **Nomination 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.

A detailed report of the committee is contained on page 50.

- **Business Development Committee:** The Committee comprises of Non-Executive Directors. Executive Directors and other senior managers are invited to attend when appropriate to assist the committee in fulfilling its mandate.

  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 proposals or business prospects for CiplaQCIL.

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 is in the process of appointing 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 shall report quarterly to the Audit and Risk Committee and shall have exclusive access to the Chairperson of the Committee.

Risk Management

The Board approved a Risk Management Policy which sets out a mechanism through which risk shall be managed in the organisation.

The Audit and Risk Committee is charged with the responsibility of reviewing the effectiveness of the risk management framework in the organisation.

Board Evaluation

The Board did not undertake an evaluation exercise since it was reconstituted just before the end of the financial year. A Board Evaluation shall be undertaken in the following financial year.

Delegation of Authority

Management of the Company's business is vested in the directors, who have delegated some of their powers to Board Committees, although retaining ultimate responsibility and effective control.

Additionally, the Board has delegated to the Chief Executive Officer the day to day management of the Company to ensure a smooth operation of the Company and proper implementation of the Company's strategic direction. The CEO fulfils this role with support from the Management Team.

The Chief Executive Officer reports to the Board. He attends all Board and Board Committee Meetings to inform and update the Board on implementation of its decisions.

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 and interim results. 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.

Company Secretary

The Company Secretary is responsible for ensuring the Board remains cognisant of its roles and obligations. This involves keeping the board abreast of any relevant changes in legislation and governance practices. The Company Secretary oversees induction of new directors and Board trainings. The Company Secretary acts as secretary to the Board and its Committees and is tasked with ensuring a timely and smooth flow of information from the Board to Management and vice versa.

All directors have adequate access to the advice and services of the Company Secretary.

Stakeholder Engagement

The Company has always been committed to fulfilling the interest of its stakeholders such as the shareholders, Government, regulators, contractors, suppliers, the general public, customers among others.

The Company strives to maintain regular engagements with the regulators and seeks their feedback and input where necessary.

Further the Company serves the needs of the community by engagement in various corporate social responsibility initiatives. We acknowledge that our activities could have an impact on livelihoods thus we embrace responsible business practices like proper waste disposal and enforcing health and safety measures at our manufacturing plant.

Succession Planning

Succession planning is a responsibility of the Board through the Nomination and Remuneration Committee which ensures there is a balance of skills, experience and knowledge on the Board necessary to ensure constructive discourse.

The Board also satisfies itself that appropriate skills are available at management level to ensure effective strategy implementation and to drive overall performance.

Relationship with Shareholders

CiplaQCIL is committed to promoting regular communication with shareholders. The Company Secretary and the Investor Relations Manager are responsible for ensuring effective lines of communication with shareholders are established. Shareholders are encouraged to attend the Annual General Meeting to air their views and interact with Directors who shall be available to answer shareholder questions.

The Company has adopted an electronic communication strategy and will timely upload all investor information on its website. Information about the AGM will be published in the press and will also be circulated via email and SMS. Shareholders are requested to ensure all their details are updated. Updating of shareholder details can be done through the share registrar whose contacts are as provided on page 5.

Dealing in Securities

The Company is aware of its obligation as a listed entity to restrict dealing in securities by directors and employees during closed periods. In line with this, the Company approved an insider trading policy restricting dealing in securities during the close period which are in effect from 1st October to the publication of the interim results and from 1st April to the publication of results. The restriction shall also apply to employees who are in possession of price sensitive information. Compliance with the policy shall be monitored on an ongoing basis.

Codes and Regulations

The Company is cognisant of the implications any non-compliance would have on consumers and the environment. Complying with all applicable legislation, regulations, standards, codes and policies are 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.

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 the Articles of Association, the principles of corporate governance in the Companies Act, particularly the Code of Corporate Governance in Table F and international best practices.

Going Concern

The Board has sufficient reason to believe that the Company has adequate resources to remain a going concern for the next Financial Year.

The Audit and Risk Committee

I. Constitution

The Audit and Risk Committee is a five-member Committee, comprising one Independent Non-Executive Director who also acts as the Chairman, one Non-Executive Director and three Members from outside the Board.

During the Financial Year ended 31 March 2019, the Board assigned the role of Risk Management to the Committee and re-named it the Audit and Risk Committee (ARC). The Audit and Risk Committee complies with the statutory requirements of Table F of Companies Act, 2012 and will continue to review the Capital Markets Authority Guidelines to ensure a balance of the requirements with the current Board and Committee structures.

The Chief Executive Officer and Head of Finance attend the Audit and Risk Committee meetings upon invitation to assist in conducting the proceedings and for providing clarifications wherever necessary. The External Auditor is also invited to the Committee meetings during discussions related to the audit of the Company's financial statements.

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

Mr. Mark Daly	Member
Mr. Nishant Saxena	Member
Ms. Beth Mandel	Member
Mr. Zain Latif	Member
Mr. Joseph Baliddawa	Chairman
Ms. Christine Nabiryo	Member
Mr. Timothy Basiimampora	Member
Mr. Oscar Manuga	Member

1. *Ms. Christine Nabiryo, Mr. Timothy Basiimampora and Mr. Oscar Manuga are Committee members from outside the Board*
2. *Mr. Nishant Saxena, Ms. Beth Mandel and Mr. Zain Latif resigned w.e.f. February 12 2019.*
3. *Mr. Joseph Baliddawa, Ms. Christine Nabiryo, Mr. Timothy Basiimampora and Mr. Oscar Manuga were appointed w.e.f. February 12 2019.*

II. The Audit Committee Charter

The Committee is guided by the Charter approved by the Board of Directors of the Company. This Charter contains the written terms of reference of the Committee, its membership, authority and responsibilities. The Charter is reviewed periodically in order to strengthen the governance framework and was last amended in May 2019. This Charter is available to all members of the Committee and on the Company website under Corporate Information section.

III. Meetings / Responsibilities and Auditors

The Committee met twice in the financial year. Attendance of members in each of these meetings was as follows:

Names	14 May 2018	12 Feb. 2019
Mr. Mark Daly	✓	✓
Mr. Nishant Saxena	✓	N/A
Ms. Beth Mandel	✓	N/A
Mr. Zain Latif	✓	N/A
Mr. Joseph Baliddawa	N/A	✓
Ms. Christine Nabiryo	N/A	✓
Mr. Timothy Basiimampora	N/A	✓
Mr. Oscar Manuga	N/A	N/A

- *Mr. Oscar Manuga's appointment was only confirmed during the meeting of February 12 2019 hence he was unable to attend this meeting.*

Key

✓ Present **N/A** Not Applicable

The Chairman of the Committee, after each Committee meeting presents a report to the Board with recommendations for approval.

The following activities were undertaken by the Committee:

a. Consideration of financial statements: The Committee received and reviewed the interim and annual financial statements presented by Management. The Committee obtained assurance from the External Auditors that the financial statements had been prepared in accordance with the Companies Act, 2012, the USE Listing Rules, International Financial Reporting Standards (IFRS) and other legal and regulatory requirements. After their review, the Committee presented and recommended the financial statements to the Board for approval.

b. Review of the Company's financial position. 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.

c. Overseeing the External Audit function. The Committee 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. The External Auditor issued an unqualified audit opinion on the Company's financial statements for the year ended 31 March 2019.

d. The Committee reviewed and confirmed that non-audit services were not offered by the External Auditors and therefore, independence of the auditors was not compromised in any manner.

e. The Committee is responsible for the internal control framework. However, the Company is yet to appoint an internal auditor. Upon recommendations by the Committee, considerations for the appointment of an Internal Auditor will be made in the next financial year. The Committee also recommended the setting up of a compliance function and this has been implemented.

f. The Committee advised Management on the need for a Disaster Recovery Plan and plans are underway to document and operationalise a Disaster Recovery Plan (DRP).

g. On Risk Management, the Committee received and considered the Risk Management Policy. The Policy provides for a formal risk management and internal compliance and control process aimed at enabling the identification, assessment, management and monitoring of material risk throughout the Company.

Key risks identified were:

ii. Exposure to fluctuations of the exchange rate.
iii. Production unavailability
iv. Breach of health, safety, environment and security standards
v. Exposure to debt

To assess risk, consideration shall be given to the potential financial, reputational, regulatory or operational impact and the probability that the risk may materialise.

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

h. The Committee reviewed the status of its compliance with the Charter and noted that it covered most of the responsibilities assigned to it.

Mr. Joseph Baliddawa
Chairman Audit and Risk Committee

Nomination and Remuneration Committee

1. Constitution of the Committee

Prior to Listing, the Company had a Remuneration Committee. Upon listing and to comply with the requirements of Table F of the Companies Act, 2012 and CMA Corporate Governance Guidelines, the Board modified the scope of the existing Remuneration Committee to include the statutory requirements of a Nomination Committee and consequently changed its name to "Nomination and Remuneration Committee" with effect from February 12 2019.

The Nomination and Remuneration Committee is a three-member Committee comprising of two Independent Non-Executive Directors and one Non-Executive Director. The Committee is chaired by an Independent Non-Executive Director.

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

Ms. Beth Mandel	Chairperson	Non - Executive
Mr. Zain Latif	Member	Non - Executive
Mr. Chandru Chawla	Member	Non - Executive
Mr. Paul Miller	Member	Non - Executive
Mr. Mark Daly	Member	Non - Executive
Mr. Nishant Saxena	Member	Non - Executive
Dr. Peter Mugyenyi	Chairperson	Independent Non - Executive
Mr. Joseph Baliddawa	Member	Independent Non - Executive

1. *Ms. Beth Mandel, Mr. Zain Latif, Mr. Chandru Chawla, Mr. Mark Daly and Mr. Nishant Saxena resigned w.e.f February 12 2019.*
2. *Dr. Peter Mugyenyi and Mr. Joseph Baliddawa were appointed w.e.f. February 12 2019.*

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 attendees are required to disclose potential conflicts of interest and to excuse themselves on agenda items where there exists a conflict of interest.

2. Responsibility of the Committee

The overall responsibility of the Committee is to determine the Company's remuneration philosophy, provide an oversight role, review and make recommendations to the Board on Board recruitments, induction, training, performance management, strategic planning and the Company's human capital framework.

The Committee is also charged with the responsibility of reviewing the composition of the Board to ensure it is well constituted with a diverse range of skill and experience that enhances diversity of thoughts and efficient decision making.

In line with the provisions of applicable laws, the Committee is also responsible for determining the broad policy for the remuneration of Executive Directors, Chief Executive Officer and other members of Executive Management, and to approve targets and any performance-related pay schemes operated by the Company including total annual payments made under such schemes.

The Committee is governed by Terms of Reference set out under the Nomination and Remuneration Committee Charter which was approved and provided to it by the Board.

3. Statement on Remuneration Philosophy

The Company aims at becoming a world class pharmaceutical company that attracts and retains first-class talent. Consequently, we work to develop a depth and calibre of human resource skilled in delivering sustainable growth pan-Africa, aligned with the Company's core philosophy of providing quality affordable medicines made in Africa for African patients.

To stimulate the growth of our Company's human resources and skill base, the Nomination and Remuneration Committee (NRC) regularly reviews the Company's remuneration structures and practices to ensure best competitive pay in the industry.

To equitably assess the remuneration of employees, the NRC reviews market and comparator remuneration data were available and takes into consideration the Company's performance against its corporate financial targets and individual performance.

4. Meetings and Responsibilities

The Committee met once in the financial year 2018-19. The Chairperson of the Committee, after each Committee meeting briefs the Board about their discussions on critical matters.

Name	12 Feb. 2019
Dr. Peter Mugyenyi	✓
Mr. Joseph Baliddawa	✓
Mr. Paul Miller	✓

The Committee considered the following matters during the financial year 2018-19:

i. The leadership of the Company defines its ability to stay relevant in changing times and therefore succession planning for the Board was one of the crucial matters taken up by the Committee. The Committee oversaw key processes through which the Company inducted new members to its Board, worked closely with the Board on the leadership succession plan, and prepared contingency plans for succession in case of any exigencies.

a. The Committee reviewed and noted the composition of the Board and that of the Committees.
b. During the past Financial Year, the Board was reconstituted with the appointment of two Independent Non-Executive Directors namely: Mr. Joseph Baliddawa and Dr. Peter Mugyenyi. The independent directors bring to the Board an independent, balanced and objective perspective which enhances decision making.
c. Ms. Beth Mandel, Mr. Zain Latif, Mr. Chandru Chawla, Mr. Mark Daly and Mr. Nishant Saxena ceased being members of the Committee upon their resignations effective February 12 2019.

ii. The Committee reviewed management human resource related matters including overall manpower, attrition, gender diversity, performance and rewards philosophy, talent management, cultural transformation covering Cipla's principles and values.

iii. The Committee discussed putting in place a policy on remuneration and succession planning and is consistently working with the management to ensure its presentation to the Board for approval.

iv. Since the Board has been recently reconstituted, the Committee did not carry out a board evaluation. An evaluation will be carried out in the next financial year.

5. Directors' Remuneration

Remuneration of Executive Directors

The table below shows the breakdown of Executive Directors' emoluments for the year ended 31 March 2019 in USD.

Category	Gross Salary USD	Other Benefits USD	Pension & provident fund contribution USD
Executive Directors (4)	1,047,544	354,363	130,960
Former Executive Director (1)	169,265	57,916	21,609
Totals:	**1,216,809**	**412,279**	**152,569**

**Former Executive Director Retired in September 2018 and is no longer an Executive Director*

Remuneration of Non - Executive Directors

The Independent Directors i.e. Dr. Peter Mugyenyi and Mr. Joseph Baliddawa are remunerated as follows:

a. Quarterly Fees of USD 3,000.
b. Sitting allowance of USD 750 for every Committee meeting attended and USD 1000 for every Committee Meeting chaired.
c. Sitting allowance fee of USD 750 paid for one extra day in case of travel abroad for any Board/Committee Meeting.

The above remuneration was agreed on 8 May 2019 and shall be paid retrospectively within the applicable financial period. Other Non-Executive Directors do not receive any remuneration.

On behalf of the Committee

Dr. Peter Mugyenyi
Chairman, Nomination and Remuneration Committee

Shareholding Structure as at 31 March 2019

Shareholder Categories

Nationality	Category	No. of Members	No. of Shares	Percentage Holding
Local investors	Corporate	76	280,338,244	7.6%
	Individual	2,389	353,907,905	9.6%
		2,465	**634,246,149**	**17.3%**
Foreign	Corporate	7	3,012,689,288	82.4%
	Individual	114	4,973,763	0.13%
		121	**3,017,663,051**	**82.6%**
Grand Totals:		**2,586**	**3,651,909,200**	**100%**

Percentage holdings

Range ID	Description	No. of Investors	No of Shares Held	Percent Holding
1	Between 0 and 1,000 Shares	429	403,035	0.00%
2	Between 1,001 and 5,000 Shares	963	2,698,361	0.07%
3	Between 5,001 and 10,000 Shares	406	3,503,890	0.09%
4	Between 10,001 and 1,000,000 Shares	774	48,217,724	1.29%
5	Above 1,000,001 Shares	14	3,597,086,200	98.52%
		2,586	**3,651,909,200**	**100%**

Top 10 shareholders

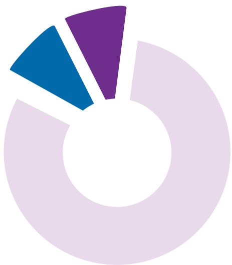
	SHAREHOLDER'S NAME	AMOUNT	%
1	MEDITAB HOLDINGS LIMITED	1,864,299,646	51.05
2	AMISTAD LIMITED	420,402,713	11.51
3	SCB MAURITIUS A/C CAPITALWORKS SSA 1	407,152,191	11.15
4	GOVERNMENT EMPLOYEES PENSION FUND	312,000,000	8.54
5	NATIONAL SOCIAL SECURITY FUNDS	269,361,386	7.38
6	KATONGOLE EMMANUEL	101,933,042	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

Graphic Representation

Foreign Investors

Local Individual Investors

Local Corporate Investors



Ms. Samina Vaziralli the Executive Vice-Chairperson Cipla Ltd Plants a tree at the newly opened warehouse at CiplaQCIL's manufacturing plant in Luzira industrial park.

Financial Statements
31 MARCH 2019

CiplaQCi
ACCESS TO QUALITY AFFORDABLE MEDICINES

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2019

The Directors submit their report together with the audited financial statements for the year ended 31 March 2019, which disclose the state of affairs of Cipla Quality Chemical Industries Limited ('CiplaQCIL' or 'the company').

1. INCORPORATION AND PRINCIPAL ACTIVITY

Cipla Quality Chemical Industries Limited, ('CiplaQCIL'), 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, until September 2018.

The Company converted to a public company on 7 October 2016, and on 17 September 2018, 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).

2. RESULTS FOR THE YEAR

The results for the year are set out on page 65.

3. DIVIDENDS

The directors do not recommend the payment of a final dividend for the financial year ended 31 March 2019 (2018: 11.12 billion).

4. RESERVES

The reserves of the company are set out on page 67.

5. DIRECTORS AND OFFICERS

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

Mr. Emmanuel Katongole (Ugandan)	Executive Chairman
Mr. George William Baguma (Ugandan)	Executive Director
Mr. Nevin J Bradford (British)	Executive Director
Dr. Ranjana Pathak (American)	Non-Executive Director
Mr. James Paul Miller (South African)	Non-Executive Director
Mr. Nishant Saxena (Indian)	Non-Executive Director
Dr. Abofele Bogosi Khoele (South African)	Non-Executive Director (Alternate director to Dr. Ranjana Pathak)

5. DIRECTORS AND OFFICERS (continued)

Mr. Samuel Opio (Ugandan)	Executive Director
Mr. Frederick Mutebi Kitaka (Ugandan)	Executive Director (Retired on 16 September 2018)
Ms. Beth Mandel (American)	Non-Executive Director (Resigned on 28 February 2019)
Mr. Zain Latif (British)	Non-Executive Director (Resigned on 28 February 2019)
Mr. Chandru Chawla (Indian)	Non-Executive Director (Resigned on 28 February 2019)
Mr. Mark Warwick Daly (South African)	Non-Executive Director (Appointed on 14 April 2018)
Prof. Peter Mugyenyi (Ugandan)	Independent Non-Executive Director (INED) - (Appointed on 17 August 2018)
Mr. Joseph Baliddawa (Ugandan)	Independent Non-Executive Director (INED) - Appointed on 17 August 2018)
Ms. Terry Nantongo Kajoba (Ugandan)	Company Secretary (Resigned on 21 April 2019)
Ms. Doreen Pachuto Awanga (Ugandan)	Company Secretary (Appointed on 27 June 2019)

6. DIRECTORS' INTEREST IN SHARES

As at 31 March 2019, the following directors held a direct interest in the Company's share capital as reflected in the table below:

DIRECTOR	Number of shares	%
Mr. Emmanuel Katongole	101,933,042	2.7912
Mr. George William Baguma	101,933,042	2.7912
Mr. Nevin J Bradford	7,000	0.0002
Mr. Joseph Baliddawa	150,000	0.0041
	204,023,084	5.5868

7. AUDITORS

The auditors, Ernst & Young, have expressed their willingness to continue in office in accordance with section 167(2) of the Companies Act, 2012.

8. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There is no material event that has occurred between the reporting date of this report that would require adjustment to these financial statements.

By Order of the Board

....

SECRETARY

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2019

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 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. Appropriate accounting policies supported by reasonable and prudent judgments and estimates, are applied on a consistent and using the going concern basis. 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 2019, 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 were approved by the Board of Directors on 21 May 2019
and signed on its behalf by:

N J Bradford

Director

Director

EY
Building a better working world

Ernst & Young
Certified Public Accountants of Uganda
Ernst & Young House
Plot 18, Clement Hill Road
Shimoni Office Village,
P.O. Box 7215
Kampala, Uganda

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www.ey.com

REPORT OF THE INDEPENDENT AUDITORS 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 set out on pages 65 to 107, which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, statement of changes in equity and statement of cashflows 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 2019, and its financial performance and cashflows 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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of Cipla Quality Chemical Industries Limited.

We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of Cipla Quality Chemical Industries Limited. 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 fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements.

The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

REPORT OF THE INDEPENDENT AUDITORS (Continued)

Key Audit matter	How our audit addressed the Key Audit Matter
I. Accounting for Revenue and related costs	**Our audit procedures involved, among others:**
The Company's revenues for the year ended 31 March 2019 were from three major customers: Government of Uganda represented by National Medical Stores (NMS), Government of Zambia, and the Global Fund to Fight AIDS, Tuberculosis and Malaria ("The Global Fund"). During the financial year, the Global Fund changed its strategy from cure to prevention and reduced its purchase of the Company's Anti-malarial (ACT) drugs. In the financial year 2017/18, revenues from the Global Fund amounted to US$ 27 million, reducing to US$ 2 million in the financial year 2018/19. At the same time, the company's cost of raw materials increased due to change in suppliers. The Global Fund was the second largest customer after the Government of Uganda. The reduction in business from Global Fund coupled with the increase in cost of raw materials saw a significant reduction in the company's performance, reducing the gross profit and the profit before tax by 30% and 80%, respectively. To bridge the revenue shortfalls, the Company signed an agency commission agreement with CAR Commercial broker to secure market for the Company in the territory of Zambia. During the year, revenue from the Government of Zambia increased from US$ 4 million to US$ 13 million. The brokerage contract attracts a commission of 5% on the total sales value realised from the territory of Zambia. Because revenue and cost of sales are the Company's key performance measures, and the shareholders are interested in the performance of the company, there is an increased risk of misstatement to meet performance targets. In this regard, revenue and the related costs has been considered a key audit matter. As disclosed in note 3, revenues for the year ended 31 March 2019 amounted to Ushs 195 billion (2018: Ushs 227 billion). The accounting policies for revenue recognition are disclosed in note 2 (r).	• 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. • We reviewed the Company's accounting policies, including the criteria for revenue recognition and the classification of sales incentives. • We reviewed sales invoices and any other relevant supporting documentation to assess whether the revenue was recognised and accounted for appropriately, as per the contract terms. • We reviewed a sample of sales made in the last month of the year, assessing the transfer of risks and rewards, with the date of revenue recognition to examine whether the performance obligations had been performed before year end. • We also reviewed the sampled contracts with suppliers, invoices for purchases of raw materials and the broker agreement with CAR Commercial Broker to assess whether costs are appropriately accounted for in accordance with the contract terms.

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REPORT OF THE INDEPENDENT AUDITORS (Continued)

Key Audit matter	How our audit addressed the Key Audit Matter
II. Provision for bad debts under IFRS 9	**Our audit procedures involved, among others:**
On 1 April 2018, the Company adopted IFRS 9 Financial Instruments. The standard requires the Company to recognise a loss allowance for expected credit loss (ECL) on its financial assets measured at amortised cost (trade receivables and balances held at financial institutions). Because these instruments at amortised cost comprise over 48% of the Company's assets and the expected credit losses require significant management judgement and assumptions, we have considered this audit area to be a key audit matter. IFRS 9 is a complex standard that introduces a new model for impairment of financial instruments that is based on forward looking expected credit losses. The computation of expected credit losses required significant management judgement and subjective assumptions to (i) interpret the requirements of the standard with relation to statistically derived risk parameters such as the probabilities of default, loss given default and exposure at default, (ii) identify exposures with significant increase in credit risk or exposures in default, to classify instruments into various stages and (iii) application of macroeconomic factors such as GDP growth, interest rates and domestic borrowing. In accordance with IFRS 9, expected credit losses should reflect an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The entity also considers reasonable and supportable information about past events, current conditions and reasonable and supportable forecasts of future economic conditions when measuring expected credit losses. Consequential amendments of IFRS 9 to IAS 1 require that impairment losses, including reversals of impairment losses and impairment gains (in the case of purchased or originated credit-impaired financial assets), are presented in a separate line item in the statement of comprehensive income. As disclosed in note 18, as at 31 March 2019, trade receivables amounted to Ushs 111 billion (2018: Ushs 66 billion), and the provision for impairment computed in accordance with IFRS 9 amounted to Ushs 5.3 billion as at 31 March 2019. The accounting policies for impairment of financial instruments are disclosed in note 2 (c).	• We reviewed the company's IFRS 9 impact assessment to confirm that the assumptions taken herein are reasonable. • We reviewed the company's reported expected credit losses, the model used and the assumptions used to arrive at the reported amounts to confirm their reasonability, fairness and practicability. • We reviewed the company's credit and provisioning policy to confirm that this is in line with the requirements of IFRS 9. • We obtained management representations for any adjustments made in the company's' financial statements in respect to the expected credit losses. • We selected a sample of trade receivables and obtained underlying supporting documentation to confirm the nature of these accounts and if the balance the ECLs were based on is complete. • We sent out Debtor confirmations to all outstanding receivables as at year end to confirm that the balances reported exist and are fairly valued.

REPORT OF THE INDEPENDENT AUDITORS (Continued)

Key Audit matter	How our audit addressed the Key Audit Matter
III. Accounting for deferred tax in the Company's tax holiday period	**Our audit procedures involved, among others:**
Effective, 1 July 2009, the Government of Uganda agreed to pay the company's current income tax obligations on behalf of the company for a period of 10 years until 30 June 2019. The Government is responsible for payment of taxes assessed by the company in the tax returns filed in accordance with the Income Tax Act (Cap 340). The company therefore offsets the government grant against the income tax charge. In accounting for deferred tax, 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 accordance with the guidelines in IAS 12 Income Taxes and the guidance of the Ugandan Income Tax Act. Therefore, the company has to make an estimate for timing differences which are expected to reverse before and those that will reverse after the tax holiday period. Accounting for deferred tax during the company's tax holiday period was significant to our audit because the area is complex and involves significant judgement and assumptions in the determination of temporary differences that will reverse, and those that will not reverse before expiration of the tax holiday. Due to the complexity of the computation and the significant judgment involved, this was considered to be a key audit matter. We also considered the complexity of the related disclosures and that they may not be complete. The deferred tax liability relating to timing differences which will not reverse before 30 June 2019 is disclosed in note 12 (b) to the financial statements. Refer to note 2 (I) for the accounting policies adopted for deferred tax.	• We involved our tax specialists in reviewing the tax computation and assessed the deferred tax charge recognised against temporary differences that are not expected to reverse before 30 June 2019. • We reviewed the appropriateness of management's assumptions and estimates in the computation of the deferred tax charge. • We reviewed the disclosures made in the financial statements and assessed the adequacy thereof. • We discussed with management the nature and details of the grant awarded by the Government of Uganda, and the responsibilities conferred on management in the tax holiday arrangement. We assessed whether management had fulfilled its obligations under the terms of the tax holiday. • We checked that the current income and deferred tax computations were correctly computed in accordance with the requirements of the Income Tax Act and IFRS. • We reviewed and examined whether the assumptions involved in the assessment of the timing differences, which are not expected to reverse before June 2019 have been consistently applied from year to year_!"._

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REPORT OF THE INDEPENDENT AUDITORS (Continued)

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2012. The other information does not include the company information, 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.

The directors are responsible for overseeing the company's financial reporting processes.

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 the 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.

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REPORT OF THE INDEPENDENT AUDITORS (Continued)

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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

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

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

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

Report on other legal 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 Geoffrey Byamugisha - P0231.

Ernst & Young
....
Certified Public Accountants
Kampala, Uganda
5th July 2019

....
Geoffrey Byamugisha
Partner

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
Statement of Comprehensive Income
for the year ended 31 MARCH 2019

	Note	2019 Ushs	2018 Ushs
Revenue from contracts with customers	3	195,136,338,342	227,315,026,586
Cost of sales	4	(125,544,798,927)	(130,931,677,275)
Gross profit		**69,591,539,415**	**96,383,349,311**
Other income	5	197,138,936	165,436,810
Net foreign exchange (losses)/gains	6	(1,339,724,099)	1,176,439,594
		68,448,954,252	**97,725,225,715**
Expected credit losses on financial instruments		(3,041,727,215)	(204,259,180)
Administration expenses	7	(23,689,206,308)	(17,065,653,734)
Staff expenses	8	(27,682,424,771)	(29,146,895,139)
Other operating expenses	9	(543,526,839)	(685,076,228)
Operating profit before depreciation and amortisation		**13,492,069,119**	**50,623,341,434**
Finance costs - interest on overdraft		(1,253,973,426)	-
Amortisation and depreciation	10	(5,110,075,906)	(6,629,854,984)
Profit before tax	**11**	**7,128,019,787**	**43,993,486,450**
Income tax (expense) / credit	12(a)	(342,286,961)	633,751,980
Profit for the year		**6,785,732,826**	**44,627,238,430**
Other comprehensive income, net of tax			-
Total comprehensive income for the year, net of tax		**6,785,732,826**	**44,627,238,430**
Basic and diluted earnings per share	**21(d)**	**1.86**	**12.22**

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CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
Statement of Financial Position
as at 31 MARCH 2019

	Note	2019 Ushs	2018 Ushs
ASSETS			
Non-current assets			
Property, plant and equipment	13	27,859,819,704	31,298,534,645
Capital work-in-progress	14	33,550,933,420	24,153,027,590
Leasehold land	15	2,776,233,050	2,776,233,050
Intangible assets	16	1,738,132,750	369,216,970
		65,925,118,924	**58,597,012,255**
Current assets			
Inventories	17	81,221,162,838	37,218,169,221
Trade and other receivables	18	139,701,011,585	91,844,847,136
Fixed deposit	19	-	11,078,381,594
Cash and bank balances	20	714,328,859	10,557,834,535
		221,636,503,282	**150,699,232,486**
Total Assets		**287,561,622,206**	**209,296,244,741**
EQUITY AND LIABILITIES			
Equity			
Issued capital	21	45,648,865,000	45,648,865,000
Capital contribution	22	2,275,000,000	2,275,000,000
Retained earnings		120,386,394,115	126,165,384,148
		168,310,259,115	**174,089,249,148**
Non-current Liabilities			
Deferred income tax liability	12(b)	2,156,694,148	2,434,4331138
Current Liabilities			
Bank overdraft	20	51,918,877,981	
Trade and other payables	23	65,175,790,962	32,772,562,455
		117,094,668,943	**32,772,562,455**
Total Equity and Liabilities		**287,561,622,206**	**209,296,244,741**

The financial statements were approved by the Board of Directors on 21 May 2019 and signed on its behalf by:

N.J Bradford
Director

Director

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
Statement of Changes in Equity
for the year ended 31 MARCH 2019

	Issued capital Ushs Note 21(a)	Capital contribution Ushs	Retained earnings Ushs	Proposed dividends Ushs Note 21(c)	Total Ushs
At 1 April 2017	45,648,865,000	2,275,000,000	92,430,971,694	-	140,354,836,694
Total comprehensive income for the year	-	-	44,627,238,430	-	44,627,238,430
Proposed dividends	-	-	(10,892,825,976)	10,892,825,976	-
Dividends paid	-	-	-	(10,892,825,976)	(10,892,825,976)
At 31 March 2018	**45,648,865,000**	**2,275,000,000**	**126,165,384,148**	**-**	**174,089,249,148**
At 1 April 2018	45,648,865,000	2,275,000,000	126,165,384,148	-	174,089,249,148
Impact of adoption of IFRS 9	-	-	(2,066,753,170)	-	(2,066,753,170)
Deferred tax on adoption of IFRS 9 (note 12 (a))	-	-	620,025,951	-	620,025,951
Revised opening balance:	45,648,865,000	2,275,000,000	124,718,656,929	-	172,642,521,929
Total comprehensive income for the year	-	-	6,785,732,826	-	6,785,732,826
Proposed dividends	-	-	(11,117,995,640)	11,117,995,640	-
Dividends paid	-	-	-	(11,117,995,640)	(11,117,995,640)
At 31 March 2019	**45,648,865,000**	**2,275,000,000**	**120,386,394,115**	**-**	**168,310,259,115**

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
Statement of Cash Flows
for the year ended 31 MARCH 2019

	Note	2018 Ushs	2017 Ushs
Operating Activities			
Profit before tax		7,128,019,787	43,993,486,450
Adjustment for:			
Unrealised foreign exchange (gains)/losses on bank balances and fixed deposits		(56,646,845)	132,586,905
Provision for bad debts		3,041,727,215	204,259,180
Depreciation	13	4,878,463,863	6,089,691,406
Amortisation of intangible assets	16	231,612,043	540,163,578
	14	-	221,213,795
Stock write off	4	(63,797,787)	(740,990,655)
Provision for obsolete inventories	17	597,528,562	63,797,787
(Gain)/loss on disposal of property and equipment		(128,767,785)	86,507,039
Interest income	5	(9,600,894)	(87,902,710)
Finance costs		1,253,973,426	-
Cash flows before working capital changes		**16,872,511,585**	**50,502,812,775**
Increase in inventories	17	(44,536,724,392)	(8,308,299,442)
Increase in trade and other receivables	18	(52,964,644,834)	(3,687,851,915)
Increase in trade and other payables	23	32,403,228,507	7,589,535,555
Cash flows (used in)/generated from operations		**(48,225,629,134)**	**46,096,196,973**
Interest received		38,982,488	58,521,116
Interest paid on bank overdraft		(1,253,973,426)	-
Net cash flows (used in) / generated from operating activities		**(49,440,620,072)**	**46,154,718,089**
Investing Activities			
Fixed deposit held	19	11,049,000,000	(10,905,000,000)
Purchase of property, plant & equipment	13	-	(1,430,357,821)
Investment in capital work in progress	14	(12,250,489,981)	(25,887,347,416)
Purchase of intangible assets	16	(187,692,594)	(38,359,800)
Proceeds from disposal of property and equipment		128,767,785	10,148,304

Statement of Cash Flows (Continued)

	Note	2018 Ushs	2017 Ushs
Investing Activities			
Net cash flows used in investing activities		**(1,260,414,790)**	**(38,250,916,733)**
Financing Activities			
Dividends paid	21(c)	(11,117,995,640)	(10,892,825,976)
Net cash flows used in financing activities		**(11,117,995,640)**	**(10,892,825,976)**
Net decrease in cash and cash equivalents		(61,819,030,502)	(2,989,024,620)
Effect of exchange rate movements on cash and cash equivalents		56,646,845	(276,586,905)
Cash and cash equivalents at start of year		10,557,834,535	13,823,446,060
Cash and cash equivalents at end of year	**20**	**(51,204,549,122)**	**10,557,834,535**

CIPLA QUALITY CHEMICAL INDUSTRIES LIMITED
Notes to the Financial Statements for the year ended 31 March 2019

1. Company Information

The company was incorporated on 10 June 2005 as a joint venture between Quality Chemicals Limited (of Uganda) ('QCL') and Cipla Limited ('Cipla'), through its wholly owned subsidiary, Meditab Holdings Limited (of 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 'QCIL') to Cipla Quality Chemical Industries Limited ('CiplaQCIL') 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, CIPLAQCIL 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 2019. During the IPO, Cipla EU sold off 405,804,411 of its shares, effectively reducing Cipla's interest in the Company to 51%. Capital Works sold off 118,722,734 shares and other shareholders sold off 124,857,341 shares.

The financial statements for the year ended 31 March 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 21 May 2019.

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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, the presentation currency of the Company.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'). IFRS include International Accounting Standards ('IAS'), IFRS pronouncements and interpretations issued by the International Accounting Standards Board ('IASB').

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 comprehensive income.

On 1 April 2018, the Company adopted IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. The Company applied the modified retrospective approach and has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9.

Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS 9 on the valuation of trade receivables and the deferred tax liability have been recognized directly in retained earnings as of 1 April 2018 and are disclosed.

(c) Changes in accounting policies and disclosures

The Company has adopted for the first time, IFRS 15 Revenue from contracts with customers, IFRS 9 Financial Instruments and the consequential amendments to IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after 1 January 2018.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on

the Company's financial statements, as disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Company's financial statements. The Company has not early adopted any other standard, interpretations or amendments that has been issued but is not yet effective:

The Company adopted the following standards, interpretations and amended standards during the year:

Pronouncement:	Transition requirement and impact:
IFRS 9 Financial Instruments	IFRS 9 Financial instruments replaces IAS 39 Financial Instruments: Recognition and measurement. The standard applies to recognition, measurement, impairment, de-recognition of financial instruments, and general hedge accounting. The standard has resulted in the change in classification and measurement of the company's financial assets and a change of impairment processes. This is discussed in detail below as follows;

The Company adopted the following standards, interpretations and amended standards during the year:

Pronouncement:	**Transition requirement and impact:**
IFRS 9 Applying IFRS 9 Instruments with IFRS 4 Insurance Contracts	The amendment, issued in September 2016 provides a deferral option for entities that issue insurance contracts within the scope of IFRS 4. Applying IFRS 9 Financial instruments (amendments) allows an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are (a) the overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and (b) the deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts. The amendment did not have any impact on the Company since it does not issue any insurance contracts.
IFRS 15 Revenue from Contracts with Customers	IFRS 15 replaced all existing revenue requirements in IFRS (IAS 11) Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRS 18 Transfer of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. Adoption of the standard did not have a significant impact on the financial reporting of the Company. The Company's business model involves satisfaction of the performance obligation at a point in time, that is when the goods are delivered, and are accepted by the customer. The Company has identified only underlying one performance obligation from its contracts with customers: delivery of the promised good. Since revenue is still recognized from this performance obligation, at a point in time, the Company does not expect the transition from IAS 18 to impact on the financial statements for the year ended 31 March 2019.
Clarifications to IFRS 15	In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues discussed by the Joint Transition Resource Group for Revenue Recognition. The clarifications did not have a significant impact on the financial reporting of the Company.

The Company adopted the following standards, interpretations and amended standards during the year:	
Pronouncement:	**Transition requirement and impact:**
IFRS 2	In June 2016, the IASB issued amendments to IFRS 2 Share Based Payments to clarify the classification and measurement of share-based payment transactions. The clarifications did not have a significant impact on the financial reporting of the Company because there were no share-based payments at the reporting date.
Annual Improvements 2014–2016 Cycle (short-term exemptions)	Following is a summary of the amendments from the 2014–2016 annual improvement cycle, that became effective during the year: • IFRS 1 First-time Adoption of International Financial Reporting Standards – deletion of short-term exemptions for first-time adopters. • IAS 28 Investment in Associates and Joint Ventures – Clarification that measuring investees at fair value through profit or loss in an investment-by-investment. The amendments did not have a significant impact on the financial reporting of the Company because the Company is not adopting IFRS for the first time, and did not have any investments under IAS 28.
IFRIC 22	Foreign Currency Transactions and Advance Consideration - Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation did not have a significant impact on the Company because the Company does not have advance receipts or payments in foreign currency.
IAS 40 Investment Property Amendments to clarify transfers to, from, investment property	The amendments require that an entity shall transfer a property to, or from investment property, when and only when, there is evidence of a change in use. The amendment clarifies that a change in use occurs if property meets, or ceases to meet, the definition of investment property, and that a change in management's intention does not, in itself constitute evidence of a change in use. Amendments to IAS 40 did not have a significant impact on the financial reporting of the company because the company does not have any investments in the scope of IAS 40.

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Pronouncements	Transition requirement and impact:	Annual periods beginning on or after
Conceptual framework for financial reporting	In March 2018, the IASBN issued the revised Conceptual Framework for Financial Reporting (Conceptual Framework). The revised framework addresses the balance between concepts and details for the framework to the useful to the Board and the users. The company will adopt the Framework on its effective date. Adopting of the Framework will impact on the Company's measurement and derecognition criteria for assets and liabilities, and the presentation thereof.	1 January 2020
IFRS 16	Leases - A new accounting standard that replaces the following standards and interpretations: IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives, SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying assets has a low value. The accounting processes for lessors will remain unchanged with leases being classified as either operating or finance, as was the case with IAS 17. The Company has acquired warehouse facilities at various locations under lease arrangements. The Company is in the process of assessing the extent to which a right to use the assets during the lease term will be recognized in the financial statements for the year ending 31 March 2020.	1 January 2019
Prepayment Features with Negative Compensation Amendments to IFRS 9	The amendment clarifies that a financial asset passes the SPPI test regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The Company will adopt the amendment on its effective date, and is in the process of assessing the possible impact on the financial statements for year ending 31 March 2020	1 January 2019

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Pronouncements	Transition requirement and impact:	Annual periods beginning on or after
Amendments to IAS 28 – Long term interests in Associates and Joint Ventures	The amendment clarifies that an entity applies IFRS 9 to long term interests in an associate or joint venture to which the equity method is not applied but that, in substance form part of the net investment in the associate or joint venture. The amendment will not have any impact on the financial reporting of the Company because the Company does not have any investments in the scope of IAS 28.	1 January 2019
Annual Improvements 2015-2017 Cycle (short-term exemptions)	In December 2017, the IASB issued these improvements containing the following amendments to IFRS; the amendments are effective for annual periods beginning on or after 1 January 2019 and include: • IFRS 3– Clarifies that when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including re- measuring previously held interests in the assets and liabilities of the joint operation at fair value. • IAS 12– Clarifies that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. • IAS 23– Clarifies that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. • IFRS 11 Joint Arrangements– Clarifies that previously held interests in a joint operation are not remeasured when a party that participates in, but does not have joint control of a joint operation, obtains joint control. The amendments will not have any impact on the financial reporting of the Company because the Company does not have any business combinations, borrowing costs in the scope of IAS 23.	1 January 2019

At the date of authorization of these financial statements, the following standards and interpretations were in issue but not yet effective:

Pronouncements	**Transition requirement and impact:**	**Annual periods beginning on or after**
Plan Amendment, Curtailment or Settlement – Amendment to IAS 19	Plan Amendment, Curtailment or Settlement – Amendment to IAS 19– Clarifies that when a plan curtailment or settlement occurs, the entity should determine the current service cost for the remainder of the period after the plan amendment using the actuarial assumptions used to remeasure the net benefit liability reflecting the benefits offered under the plan and the plan assets after that event. The entity should also determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability. The Company has not recognized a plan asset or liability, and therefore the amendment will not have an impact on the Company's financial statements.	1 January 2019
IFRIC 23	Uncertainty Over Income Tax Treatments - Interpretation clarifying the accounting for uncertainties in income taxes. The Company does not expect the interpretation to have a significant impact on its financial statements because the Company does not have any uncertain tax positions.	1 January 2019
Other pronouncements	The following pronouncements are not expected to have any impact on the financial reporting of the Company because the Company does not issue insurance contracts, its business operations are not expected to change, and does not have business combinations	1 January 2020
	(1) Definition of a Business – Amendments to IFRS 3	1 January 2020
	(2) Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2022
	(3) IFRS 17 Insurance Contracts	Postponed indefinitely
	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	

CIPLA Quality Chemical Industries Limited
Notes to the Financial Statements (Continued)

2. Significant Accounting Policies (Continued)

Adoption of IFRS 9

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard which bring together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

A financial instrument in the scope of IFRS 9, is one that gives rise to the financial asset of one entity and a financial liability or equity instrument of another entity. The Company adopted IFRS 9 on its effective date of 1 January 2018.

The Company applied the modified approach and has not restated comparative information for 2018 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2018 is reported under IAS 39 and is not comparable to the information presented for 2019. The accounting policies detailed herein, relate to the financial statements for the year ended 31 March 2019. The accounting policies for the comparative information are included in the financial statements for the year ended 31 March 2018.

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured, at amortized cost dependent on the business model. Cash and cash equivalents are measured at fair value at initial recognition, while for trade receivables – since they do not contain a significant financing element – the company has applied the practical expedient, and are measured at the transaction price determined under IFRS 15.

Changes to classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. All financial instruments, except equity instruments and derivatives, including hybrid contracts are measured at fair value through profit or loss (FVTPL), fair value through comprehensive income (FVOCI) or amortized cost, based on the (i) their business model and (ii) the instrument's contractual cash flow characteristics. These categories replace the IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held to maturity.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initiation recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9. Bank balances and trade receivables previously classified as loans and receivables under IFRS 9 are now classified as debt instruments at amortised cost, under IFRS 9.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met: (i) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and (ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables, and bank balances.

Transition disclosure:

The reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 on 1 January are reported as follows:

	IAS 39 Category	IFRS 9 Category	IAS 39 measurement	Re-measurement (ECL)	IFRS 9 measurement
			Amount (Ushs'000)	Amount (Ushs'000)	Amount (Ushs'000)
Financial assets					
Balances with banks	L & R	AC	10,557,834	-	10,557,834
Fixed deposit	L & R	AC	11,078,382	-	11,078,382
Trade and other receivables*	L & R	AC	91,844,847	(2,066,753)	89,778,094
			113,481,063	**(2,066,753)**	**111,414,310**

L & R – Loans and receivables; AC – Amortized cost

*The change in carrying amount is a result of an additional impairment allowance of Ushs 2,066 million on adoption of IFRS 9. This amount has been charged to retained earnings.

Other adjustments

In addition to the adjustments described above, upon adoption of IFRS 9, other items of the primary financial statements such as deferred taxes, income tax expense and retained earnings were adjusted as necessary.

The table below sets out the impact of adoption IFRS 9 on the deferred tax balances reported under IFRS 9 as of 1 January 2018:

	Allowance for impairment under IAS 39 as at 31 March 2018	Re-measurement (ECLs)	ECL under IFRS 9 as at 1 April 2018
	Ushs'000	Ushs'000	Ushs'000
(a) Impact on financial assets:			
Trade receivables	204,259	2,066,753	2,271,012
	204,259	**2,066,753**	**2,271,012**
(b) Impact on non-financial assets			
Deferred tax (liability) / asset	(2,434,433)	620,025	(1,814,408)
Net impact on equity		**(1,446,728)**	

Classification of financial instruments

As at 1 January 2018, the Company classified all financial instruments as Debt instruments at amortised cost, since both of the following conditions were met:

(i) The financial assets are held within a business model with the objective to hold financial assets in order to collect contractual cash flows (business model test)

(ii) 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 (SPPI test)

Business model test

The Company determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

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

Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the Effective Interest Rate (EIR).

A compound financial instrument which contains both a liability and an equity component is separated at the issue date.
The accounting for financial liabilities has remained largely the same as it was under IAS 39.

SPPI test

As a second step of its classification process the Company assesses the contractual terms of the financial assets 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 the minimal 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 FVPL.

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. The Company did not reclassify any of its financial assets or liabilities in 2018.
Changes to the impairment calculation

The Company has recognized an allowance for expected credit losses (ECLs) for all debt instruments held at amortized cost. The ECLs are based on the difference between contractual cashflows due in accordance with the contract and all cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. IFRS 9 requires the Company to record an allowance for ECLs for all trade receivables and other debt financial assets not held at FVPL.

The allowance is based on the ECLs associated with probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case the ECL allowance is based on credit losses expected to arise over the life of the asset.

The company is required to apply the simplified approach (does not track changes in credit risk, but recognizes lifetime ECLs on the reporting date) for trade receivables or contract assets that do not contain a significant financing component, therefore the Company has used the simplified approach to calculate ECLs for trade receivables, since these do not contain a significant financing component.

The table below summarizes the changes in the impairment allowance for trade receivables and cash balances as at 1 April 2019:

	Allowance for impairment under IAS 39 as at 31 December 2017	Re-measurement (ECLs)	ECL under IFRS 9 as at 1 January 2018
	Ushs'000	**Ushs'000**	**Ushs'000**
Trade receivables	204,259	2,066,753	2,271,012
	204,259	**2,066,753**	**2,271,012**

The Company uses the following guidance to internally grade financial instruments:

Stage 1: Assets that are performing: If credit risk

is low as of the reporting date or the credit risk has not increased significantly since initial recognition, the Company shall recognize a loss allowance at an amount equal to 12-month expected credit losses. This amount of credit losses is intended to represent expected credit losses that will result if a default occurs in the 12 months after the reporting date, weighted by the probability of that default occurring.

Stage 2: Assets that have significant increases in credit risk: In instances where credit risk has increased significantly since initial recognition, Company shall measure a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument.

Stage 3: Credit impaired: For debt instruments that have both a significant increase in credit risk plus observable evidence of impairment. The Company shall measure a loss allowance at an amount equal to full lifetime expected credit losses. That is, the expected credit losses that result from all possible default events over the life of the financial instrument.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses. 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.

Calculation of ECL

The Company calculates ECLs by measuring the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Under stage 1, The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Company calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
When an instrument has shown a significant increase in credit risk since origination (stage 2), the PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

For loans considered credit-impaired, the Company recognises the lifetime expected credit losses for these loans.

POCI assets are financial assets that are credit impaired on initial recognition. The Company only recognises the cumulative changes in lifetime ECLs since initial recognition, discounted by the credit adjusted EIR.

ECL models

In its ECL models, the Company relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Central Bank base rates
- Inflation rates
- Interest rates
- Exchange rates
- Domestic borrowing
- Credit to private sector

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Company will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 365 days and above past due.

Write-offs

The Company's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Company has stopped pursuing the recovery.

Financial liabilities

Financial liabilities are classified, at initial recognition, loans and borrowings and payables All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables, and loans and borrowings including bank overdrafts.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Hedge accounting

The company had no hedging relationships as at 1 January 2018, hence no impact on transition to IFRS 9.

(d) Current Versus Non-Current Classification

The Company presents Assets and liabilities in the statement of financial position based on current/ non-current classification. An Asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a
- liability for at least twelve months after the reporting period.
- All other assets are classified as non – current.
- A liability is current when:
- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.
- The Company classifies all other liabilities as non-current.
- Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(e) Significant accounting judgements and estimates

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

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 (note (12 b); and (ii) timing differences which reverse after the tax holiday period, and should be recognized in the financial statements.

Current income taxes

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

Provision for expected credit losses of trade receivables

The company uses a provision matrix to calculate ECLs 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.

(f) Property, plant and equipment

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

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

The annual depreciation rates in use are:

Buildings	Lower of 4% and the lease period for buildings on leased land
Motor vehicles	25.0%
Tools and equipment	25.0%
Computers	33.3%
Furniture and fittings	12.5%
Plant and machinery	10.0%

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

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

(g) Impairment of non-financial assets

The company assesses at each reporting date whether there is an objective indication that long-term assets other than deferred income tax assets are impaired. Where an indicator of impairment exists, the company makes a formal estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of an asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its life.

Impairment losses recognised in prior years are reversed if and only if there has been a change in the estimates used to determine the recoverable amount since the last impairment loss was recognised. However, an impairment loss is reversed only to the extent that it does not increase the carrying amount of an asset above the carrying amount that would have been determined for the asset (net of amortisation or depreciation) had no impairment loss been recognised in prior years.

(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, duties and other costs incurred in bringing the inventories to their present location and condition.
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity, but excluding borrowing costs.

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

(i) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term net of outstanding bank overdrafts, highly liquid investments.

(j) National Social Security Fund ("NSSF") contribution

The company contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The company's obligations under the scheme are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salaries. The company's contributions are charged to profit or loss in the year to which they relate.

(k) 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.

(l) Tax

Current income tax

Taxation is provided in the statement of comprehensive income on the basis of the results included therein adjusted in accordance with the provisions of the Ugandan 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.

Value Added Tax (VAT)

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

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

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

(m) Provisions

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

(n) Presentation currency and foreign currency transactions

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

(o) Government grants and leased land

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.

Capital contributions

Capital contributions are accounted for, under a separate account in equity.

Leased land

Leased land is initially and subsequently measured at cost. The land is not amortised because the underlying value of the asset appreciates over time rather than depreciate

(p) Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional i.e. only the passage of time is required before payment of the consideration is due. Refer to accounting policies for financial assets, above.

(q) Sales commissions to brokers

The Company pays a sales commission of 5% to a broker for sales made in the territory of Zambia. The company has elected to apply the optional practical expedient for costs to obtain a contract which allows the Company to immediately expense the sales commission because the amortization period of the asset that the Company otherwise would have used is one year or less.

(r) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled for those goods or services.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer on delivery of the inventories. The Company has identified only one performance obligation in the its contracts with customers: delivery of the promised good, and therefore revenue recognition process has not changed from the principles applied under IAS 18.

Other income

Interest income on bank deposits is recognised as interest accrues using the effective interest rate method. Other revenues earned by the company are recognised as they are earned.

(s) Cash 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 dividends are recognised as liabilities until when paid. Interim dividends are charged to equity when paid.

(t) Fair value measurement

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

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

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

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

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

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

(t) Fair Value measurement (Continued)

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 (note 2 (e))
- Quantitative disclosures of fair value measurement hierarchy
- Property, plant and equipment under Cost model
- Financial instruments (including those carried at amortized cost)
- Contingent consideration

	2019 Ushs	2018 Ushs
3. Revenue From Contracts With Customers		
Local sales	143,135,149,848	191,135,006,135
Exports	52,001,188,494	36,180,020,451
Goods transferred at a point in time:	**195,136,338,342**	**227,315,026,586**

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

	ACTs	ARVs	Hepatitis B	Carriage	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Local	20,692,828	122,386,236	56,086	-	143,135,150
Exports	23,036,635	28,185,687	1,099	777,767	52,001,188
	43,729,463	**150,571,923**	**57,185**	**777,767**	**195,136,338**

Local sales are mainly made to Government of Uganda and other private customers, while exports are mainly made to the Government of Zambia.

	2019 Ushs	2018 Ushs
4. Cost Of Sales		
Material Costs	103,629,349,102	107,999,070,097
Conversion Costs	12,915,808,552	12,803,591,886
Royalties	8,402,112,711	10,870,005,947
Provision for obsolete inventories	597,528,562	-
Stock write off	-	(740,990,655)
	125,544,798,927	**130,931,677,275**

5. Other Income		
Interest income on bank deposits	9,600,894	87,902,710
Sale of scrap	58,770,257	77,534,100
Gain on disposal of property and equipment	128,767,785	-
	197,138,936	**165,436,810**

6. Net Foreign Exchange Gains		
Realised foreign exchange gains	1,144,481,315	12,962,570,890
Unrealised foreign exchange losses	(2,484,205,414)	(11,786,131,296)
	(1,339,724,099)	**1,176,439,594**

	2019 Ushs	2018 Ushs
7. Administration Expenses		
Advertising	5,242,635,122	1,040,133,565
Office expenses	3,773,067,412	4,786,971,614
IPO related costs	2,509,221,940	2,622,919,453
Other administration costs*	12,090,161,834	8,469,122,063
Audit fees	74,120,000	60,000,000
Loss on disposal of property and equipment	-	86,507,039
	23,689,206,308	**17,065,653,734**

*Other administration expenses relate to legal fees, issue of spare parts from stores, repair and maintenance expenses, insurance, vehicle and rental expenses

8. Staff Expenses		
Catering expenses	1,696,700,103	1,539,196,643
Medical expenses	1,126,801,773	1,000,256,997
NSSF company contributions	2,004,899,036	2,000,547,959
Protective clothing**	-	539,084,661
Salaries and wages	19,831,317,755	20,214,972,659
Provident fund	127,075,339	-
Staff accommodation**	-	557,160,981
Staff recruitment costs	257,561,508	3,644,068
Staff bonus	1,344,677,553	2,534,680,222
Staff welfare**	1,287,369,454	566,205,633
Training costs	6,022,250	22,811,200
Work permits**	-	93,719,328
Car lease fees**	-	74,614,788
	27,682,424,771	**29,146,895,139**

*In 2019, the Company reclassified protective clothing expenses, staff accommodation, work permits and car lease fees, to staff welfare expenses.

9. Other Operating Expenses		
Bank charges	517,364,539	646,102,728
Consultancy charges	26,162,300	38,973,500
	543,526,839	**685,076,228**

	2019 Ushs	2018 Ushs
10. Amortisation And Depreciation		
Depreciation of property, plant & equipment (note 13)	4,878,463,863	6,089,691,406
Amortisation of intangible assets (note 14)	231,612,043	540,163,578
	5,110,075,906	**6,629,854,984**

11. Profit Before Tax		
Profit before tax is stated after charging/ (crediting):		
Depreciation	4,878,463,863	6,089,691,406
Amortisation of intangible assets	231,612,043	540,163,578
Auditors' remuneration	74,120,000	60,000,000
Loss/(gain) on disposal of property and equipment	(128,767,785)	86,507,0391
Net foreign exchange losses/(gains)	1,339,724,099	176,436,439,594

12. Tax

a) Income tax charge

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.

	2019 Ushs	2018 Ushs
Current income tax charge	1,889,723,605	17,991,231,430
Deferred income tax (credit) / charge (note 12(b))	(277,738,990)	(633,751,980)
Income tax charge:	**1,611,984,615**	**17,357,479,450**
Less:		
Day 1 impact on adoption of IFRS 9 – charged to equity:	620,025,951	-
Charge to profit or loss:	**2,232,010,566**	**17,357,479,450**
Grant received (note 12(c))	(1,889,723,605)	(17,991,231,430)
Income tax expense / (credit) recognised in the SOCI	**342,286,961**	**(633,751,980)**

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:

	2019 Ushs	2018 Ushs
Profit before income tax	7,128,019,787	43,993,486,450
Tax calculated at the statutory income tax rate of 30%	2,138,405,936	13,198,045,935
Tax effect of:		
Expenses not deductible for tax purposes	371,343,619	484,902,665
Deferred income tax (charge) /credit not recognised	(897,764,940)	3,674,530,850
Income tax charge before grant received	**1,611,984,615**	**17,357,479,450**

b) Deferred income tax liability

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

	2019 Ushs	2018 Ushs
At the start of the year	(1,894,569,545)	2,413,713,285
Movement for the year	(2,848,252,028)	(4,308,282,830)
	(4,742,821,573)	**(1,894,569,545)**
Adjusted for:		
Deferred income tax credit/(charge) that is expected to reverse by June 2019	6,899,515,721	4,329,002,683
Deferred income tax liability recognised in the statement of financial position	**2,156,694,148**	**2,434,433,138**

At 31 March 2019					
			As at 1 April 2018 Ushs	Movement for the year (credit to SOCI) Ushs	As at 31 March 2019 Ushs
Deferred tax liability that is not expected to reverse by 2019			**2,434,433,138**	**(277,738,990)**	**2,156,694,148**
	As at 1 April 2018 Ushs	Movement for the year Ushs	As at 31 March 2019 Ushs	Less: Deferred income tax Liability/(asset) that is expected to reverse by June 2019 Ushs	Deferred income tax liability that is not expected to reverse by June 2019 Ushs
Accelerated tax depreciation	3,838,854,559	6,881,222	3,845,735,781	97,581,394	3,748,154,387
Short term timing differences	(5,733,424,104)	(2,855,133,250)	(8,588,557,354)	(6,997,097,115)	(1,591,460,239)
Net deferred income tax liability	**(1,894,569,545)**	**(2,848,252,028)**	**(4,742,821,573)**	**(6,899,515,721)**	**2,156,694,148**
At 31 March 2018					
	As at 1 April 2017 Ushs	Movement for the year Ushs	As at 31 March 2018 Ushs	Less: Deferred income tax Liability/(asset) that is expected to reverse by June 2019 Ushs	Deferred income tax liability that is not expected to reverse by June 2019 Ushs
Accelerated tax depreciation	4,117,770,062	(278,915,503)	3,838,854,559	509,837,195	3,329,017,364
Short term timing differences	(1,704,056,777)	(4,029,367,327)	(5,733,424,104)	(4,838,839,878)	(894,584,226)
Net deferred income tax liability	**2,413,713,285**	**(4,308,282,830)**	**(1,894,569,545)**	**(4,329,002,683)**	**2,434,433,138**

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

As such, only deferred tax (assets)/liabilities that are not expected to reverse during the tax grant period are recognized as indicated above

The following have been considered in estimating the deferred tax (assets)/liabilities that are not expected to reverse during the tax exemption period:

- All short-term timing differences are expected to reverse within the exemption period since they relate to: (a) unrealized exchange differences on the bank overdraft, borrowings and trade payables which will be settled before 30 June 2019, (b) provisions for obsolete inventories which were written-off as at 31 March 2019 and provision for obsolete inventories made during the year ended 31 March 2019 of Ushs 597 million, (c) provisions for bad debts made during the year of Ushs 5,313 million, start-up costs of Ushs 4,548 million and unrealized foreign exchange losses.
- All assets whose economic useful life is expected to come to an end on or before 30 June 2019 were considered to give rise to deferred income tax (assets)/liabilities which are to reverse within the exemption period. Conversely, for those assets whose economic useful life spans beyond 30 June 2019, the underlying deferred tax (assets)/liabilities are not expected to reverse within the exemption period.

c) Government grant on current income tax

Effective 1 July 2009, Government of Uganda agreed to pay the company's current income tax obligations on behalf of the company for a period of 10 years. Government will pay the taxes as assessed by the company in the tax returns filed in accordance with the Income Tax Act (Cap 340) but will not be liable to any liabilities and penalties arising from errors or omissions in the tax returns. This gives the company the legal right to offset any tax obligations from the grant and the company has the intention to offset the two.

The company's policy is to offset government grants against the expenses or assets to which they relate. The income tax charges for the year ended 31 March 2019 and 2018 have therefore not been recognised in profit or loss since they are fully offset by the government grant as analysed in note 12(a) above.

13. Property, Plant And Equipment

	Buildings	Plant & Machinery	Furniture & Fittings	Motor Vehicles	Computers	Tools & Equipment	Total
	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs	Ushs
Cost							
At 1 April 2017	17,446,868,992	45,330,424,064	870,502,149	2,436,106,766	1,388,133,918	1,377,000,669	68,849,036,558
Additions	-	56,491,400	171,561,723	650,017,440	527,735,733	24,551,525	1,430,357,821
Transfers from CWIP	-	4,625,485,795	54,851,007	-	94,993,200	352,931,031	5,128,261,033
Disposals	-	(182,577,308)	-	(615,907,615)	-	-	(798,484,923)
At 31 March 2018	**17,446,868,992**	**49,829,823,951**	**1,096,914,879**	**2,470,216,591**	**2,010,862,851**	**1,754,483,225**	**74,609,170,489**
Additions	-	-	-	-	-	-	-
Transfers from CWIP	-	1,280,979,859	9,433,016	12,096,265	112,988,902	24,250,880	1,439,748,922
Disposals	-	(1,318,542,251)	-	-	-	-	(1,318,542,251)
At 31 March 2019	**17,446,868,992**	**49,792,261,559**	**1,106,347,895**	**2,482,312,856**	**2,123,851,753**	**1,778,734,105**	**74,730,377,160**
Depreciation							
At 1 April 2017	**5,905,677,674**	**28,241,734,997**	**686,762,212**	**1,128,058,895**	**853,124,807**	**1,107,415,433**	**37,922,774,018**
Charge for the year	697,874,760	4,290,935,215	89,723,541	551,431,944	315,959,913	143,766,033	6,089,691,406
Disposals	-	(171,926,965)	-	(529,902,615)	-	-	(701,829,580)
At 31 March 2018	**6,603,552,434**	**32,360,743,247**	**776,485,753**	**1,149,588,224**	**1,169,084,720**	**1,251,181,466**	**43,310,635,844**
Charge for the year	696,675,266	2,904,062,052	150,697,963	455,983,949	505,518,918	165,525,715	4,878,463,863
Disposals	-	(1,318,542,251)	-	-	-	-	(1,318,542,251)
At 31 March 2019	**7,300,227,700**	**33,946,263,048**	**927,183,716**	**1,605,572,173**	**1,674,603,638**	**1,416,707,181**	**46,870,557,456**
Net Carrying Amount							
At 31 March 2019	**10,146,641,292**	**15,845,998,511**	**179,164,179**	**876,740,683**	**449,248,115**	**362,026,924**	**27,859,819,704**
At 31 March 2018	**10,843,316,558**	**17,469,080,704**	**320,429,126**	**1,320,628,367**	**841,778,131**	**503,301,759**	**31,298,534,645**

14. Capital Work-In-Progress (CWIP)

Particulars	Buildings Ushs	Plant & Machinery Ushs	Consultancy Ushs	Computer Software Ushs	Total Ushs
At 1 April 2017	**432,122,627**	**1,316,743,228**	**1,644,274,108**	**222,015,039**	**3,615,155,002**
Additions	6,051,888,544	18,585,595,842	-	1,249,863,030	25,887,347,416
Transfer to PPE	-	(5,128,261,033)	-	-	(5,128,261,033)
Write off	-	-	-	(221,213,795)	(221,213,795)
At 31 March 2018	**6,484,011,171**	**14,774,078,037**	**1,644,274,108**	**1,250,664,274**	**24,153,027,590**
Additions	4,780,091,273	5,749,215,508	-	1,721,183,200	12,250,489,981
Transfer to PPE	-	(1,439,748,922)	-	-	(1,439,748,922)
Transfer to Intangibles	-	-	-	(1,412,835,229)	(1,412,835,229)
Write off	-	-	-	-	-
At 31 March 2019	**11,264,102,444**	**19,083,544,623**	**1,644,274,108**	**1,559,012,245**	**33,550,933,420**

The 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.

15. Leasehold Land	2019 Ushs	2018 Ushs
At 1 April and 31 March	**2,776,233,050**	**2,776,233,050**

On 21 December 2005, the company leased land at Luzira Industrial Park from Uganda Investment Authority for an initial period of five years.

The lease was subsequently extended to 99 years after notification by the company to the lessor of its intention to renew the lease.

The leasehold land was obtained at an initial sum of Ushs 2.275 billion (as determined by the valuation done by the company) including premium and ground rent, but excluding additional costs of survey and landscaping of Ushs 0.501 billion.

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

The accounting policy for leased land is disclosed in note 2(o) above.

16. Intangible Assets	Licenses & Patents Ushs	Computer Software Ushs	Total Ushs
Cost			
At 1 April 2017	**4,025,000,000**	**1,385,288,107**	**5,410,288,107**
Additions	-	38,359,800	38,359,800
At 31 March 2018	**4,025,000,000**	**1,423,647,907**	**5,448,647,907**
At 1 April 2018	**4,025,000,000**	**1,423,647,907**	**5,448,647,907**
Additions	-	187,692,594	187,692,594
Transfer from CWIP	-	1,412,835,229	1,412,835,229
At 31 March 2019	**4,025,000,000**	**3,024,175,730**	**7,049,175,730**
Amortisation			
As at 1 April 2017	**(3,723,125,023)**	**(816,142,336)**	**(4,539,267,359)**
Charge for the year	(301,874,977)	(238,288,601)	(540,163,578)
At 31 March 2018	**(4,025,000,000)**	**(1,054,430,937)**	**(5,079,430,937)**
Charge for the year	-	(231,612,043)	(231,612,043)
As at 31 March 2019	**(4,025,000,000)**	**(1,286,042,980)**	**(5,311,042,980)**
Net Carrying Amount			
At 31 March 2019	**-**	**1,738,132,750**	**1,738,132,750**
At 31 March 2018	**-**	**369,216,970**	**369,216,970**

Intangible assets are made up of licenses for manufacturing anti-retroviral (ARV) and anti-malarial (ACT) drugs. The licenses were granted in 2008 for a period of 10 years with a right to formulae modifications and the Computer software currently used in the entity's operations. The computer software used is SAP module which was introduced into the company's operations at the beginning of the financial period.

17. Inventories		
	2019	**2018**
	Ushs	**Ushs**
Raw materials	40,721,392,350	20,010,883,544
Finished goods	14,563,741,838	5,968,835,642
Work-in-progress	10,231,970,502	3,180,236,953
Packing materials	6,744,772,791	5,197,049,696
Stock in transit	8,031,244,492	2,885,849,418
Other stocks	1,525,569,427	39,111,755
	81,818,691,400	**37,281,967,008**
Less: Provision for obsolete inventories	(597,528,562)	(63,797,787)
	81,221,162,838	**37,218,169,221**

18. TRADE AND OTHER RECEIVABLES		
	2019	**2018**
	Ushs	**Ushs**
Trade receivables	111,048,832,785	66,872,389,369
Due from related parties (Note 25(a))	2,342,420,879	1,856,062,066
Withholding tax recoverable- Net	18,857,497	-
VAT recoverable	6,245,374,099	4,421,050,327
Prepaid rent	98,673,117	174,070,868
Staff advances	166,163,388	206,517,493
Other receivables	153,649,459	-
Advance payments to suppliers	24,939,779,926	18,519,016,193
	145,013,751,150	**92,049,106,316**
Provision for impairment	(5,312,739,565)	(204,259,180)
	139,701,011,585	**91,844,847,136**
Impairment allowance:		
1 April	**204,259,180**	**-**
Adoption of IFRS 9 adjustment	2,066,753,170	-
Impairment charge to profit or loss	3,041,727,215	204,259,180
At 31 March	**5,312,739,565**	**204,259,180**

The table below shows the credit quality and the maximum exposure to credit risk based on the Company's credit rating system and year-end stage classification as at 31 March 2019. The amounts have not been included into stages, since the Company has used the simplified approach to assess impairment. The amounts presented are gross of impairment allowances:

Breakdown	**Amount (Ushs '000)**
High grade (0-90 days)	78,278,042
Standard grade (91-365 days)	29,977,768
Individually impaired (Over 365 days)	5,135,444
Grand Total	**113,391,254**

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

Movement in Gross Trade receivables	2019	2018
	Ushs	Ushs
Opening Balance	68,728,451,435	71,717,117,351
Sales during the year:	195,135,338,342	227,315,026,586
Repayments	(150,472,536,113)	(230,303,692,502)
Closing Balance	**113,391,253,664**	**68,728,451,435**

As at 31 March 2018, the aging analysis of trade receivables was as follows:

	Less than 30 days	30 to 185 days	186 to 365 days	Over 365 days	Total
	Ushs '000	Ushs '000	Ushs '000	Ushs '000	Ushs '000
Past due but not impaired	30,018,153	31,204,869	1,927,014	3,518,094	66,668,130
Past due and impaired	-	-	-	204,259	204,259
	30,018,153	**31,204,869**	**1,927,014**	**3,722,353**	**66,872,389**

All receivables that are either past due or impaired are within their credit limits, and no receivables have had their terms renegotiated.

19. Fixed Deposits		
	2019	**2018**
	Ushs	**Ushs**
At 1 April	11,078,381,594	-
Placement	-	10,905,000,000
Interest income for the year	9,600,894	87,902,710
Interest received during the year:	(38,982,488)	(58,521,116)
Foreign exchange gain	-	144,000,000
Maturity of fixed deposit	(11,049,000,000)	-
At 31 March	**-**	**11,078,381,594**

The weighted average effective interest rate on fixed deposits as at 31 March 2019 was 1.65% (2018: 1.65%). The maturity analysis of the fixed deposit is as follows:

	2019 Ushs	2018 Ushs
Within 3 to 6 months	-	11,078,381,594
	-	**11,078,381,594**

20. Cash And Cash Equivalents		
	2019 Ushs	**2018 Ushs**
Cash on hand	24,312,782	26,496,218
Cash at bank	690,016,077	10,531,338,317
	714,328,859	**10,557,834,535**
Less: bank overdraft:	(51,918,877,981)	-
	(51,204,549,122)	**10,557,834,535**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the above balances. All bank balances were in stage 1 as at 31 March 2019, and had no indicators of a significant increase in credit risk. The Company has not recognised an impairment allowance on bank balances as at 31 March 2019 (31 March 2018: nil).

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

21. Share Capital

a) Ordinary shares - authorised, issued and fully paid

	2019 Ushs	2018 Ushs
Number of shares	3,651,909,200	3,651,909,200
Nominal value per share (Ushs)	12.50	12.50
Authorised and issued capital (Ushs)	**45,648,865,000**	**45,648,865,000**

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.

b) Shareholding

	2019	Percentage	2018	Percentage
Meditab Holdings Limited	1,864,299,646	51.05%	1,864,299,646	51.05%
AMISTAD	420,402,713	11.51%	456,488,650	12.50%
Capital Works SSA1	407,152,191	11.15%	525,874,925	14.40%
Government Employees Pension Fund	312,000,000	8.54%	-	-
National Social Security Fund	269,361,386	7.38%	-	-
Emmanuel Katongole	101,933,042	2.79%	131,523,510	3.60%
Frederick Mutebi Kitaka	101,933,042	2.79%	131,523,510	3.60%
Baguma George William	101,933,042	2.79%	131,523,510	3.60%
Cipla EU Limited	4,871,038	0.13%	410,675,449	11.25%
Yiga Joseph	4,000,000	0.11%	-	-
Others	64,023,100	1.75%	-	-
	3,651,909,200	**100%**	**3,651,909,200**	**100%**

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

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

c) Dividends paid

In May 2018, the directors of the company approved a final dividend of Ushs 11.12 billion for the financial year 2017/2018. The dividend was paid in the month of May 2018

d) Earnings per share

	2019 Ushs	2018 Ushs
Net profit attributable to ordinary equity holders of the company	6,785,732,826	44,627,238,430
Weighted average number of ordinary shares in issue during the year	3,651,909,200	3,651,909,200
Basic and diluted earnings per share	**1.86**	**12.22**

22. Capital Contribution

	2019 Ushs	2018 Ushs
At 1 April and 31 March	**2,275,000,000**	**2,275,000,000**

As stated in Note 15, the capital contribution relates to the value of the land that was granted to the company by Uganda Investment Authority. The directors elected to have it appropriated into a separate reserve under equity.

23. Trade And Other Payables

	2019 Ushs	2018 Ushs
Trade payables	36,039,068,121	12,013,033,795
Accruals	6,355,872,316	6,021,999,700
Withholding tax payable- Net	-	687,612,785
Due to related parties (Note 25(a))		22,780,850,525
	65,175,790,962	**32,772,562,455**

24. Financial Instruments By Category

At 31 March 2019

	Financial assets at amortized cost Ushs	Total Ushs
Financial assets at amortized cost		
Trade and other receivables (including related party balances):	113,391,253,664	113,391,253,664
Cash and bank balances	714,328,859	714,328,859
	114,105,582,523	**114,105,582,523**
	Financial liabilities at amortised cost	Total
Financial liabilities		
Trade and other payables	65,175,790,962	65,175,790,962
Bank Overdraft	51,918,877,981	51,918,877,981
	117,094,668,943	**117,094,668,943**

At 31 March 2018		
	Loans and receivables Ushs	Total Ushs
Financial assets		
Trade and other receivables	68,934,968,929	68,934,968,929
Fixed Deposit	11,078,381,594	11,078,381,594
Cash and bank balances	10,557,834,535	10,557,834,535
	90,571,185,058	**90,571,185,058**
	Financial liabilities at amortised cost	Total
Financial liabilities		
Trade and other payables	**32,772,562,455**	**32,772,562,455**

25. Related Parties

i) The following are the key related parties:

Name	Nature of relationship
Quality Chemicals Limited, Uganda	Shareholder/Common directorship
Meditab Holdings Limited, Mauritius	Holding Company of CIPLAQCIL
Meditab Specialities Private Limited, India	Holding Company of Meditab Holdings Limited
Sitec Labs Private Limited, India	Subsidiary of Meditab Specialities Private Limited, India
Cipla Limited, India	Ultimate Holding Company

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

Related party balances	Amount	Nature of transactions
Cipla Limited	(22,780,850,525)	Purchase of inventory raw materials Technical services fees
Cipla Limited	523,143,860	Sale of goods
Sitec Labs	7,413	Analytical work on raw materials
Quality Chemical Limited	1,819,269,606	Sale of ARVs and ACTs
Net amount due to related parties	(20,438,429,646)	

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

a) Amounts due to / from related party

Due to related party (Note 23)	2019	2018
Related party	Ushs	Ushs
Cipla Limited1	22,780,850,525	13,920,793,878
Sitec Labs2	-	129,122,297
	22,780,850,525	**14,049,916,175**

Relates to purchase of raw materials and technical service fees payable to Cipla Limited. As at 31 March 2019, the liability relating to Cipla Limited amounted to Ushs 22,780,850,525 (2018: Ushs 9,578,331,340).

Relates to pre-shipment laboratory tests for raw materials.

	2019 **Ushs**	**2018** **Ushs**
Due from related party (Note 18)		
Related party		
Quality Chemicals Limited	1,819,269,606	1,548,951,428
Sitec Lab	7,413	-
Cipla Limited	523,143,860	307,110,638
	2,342,420,879	**1,856,062,066**

Amounts due from related parties relate to sale of finished goods.

b) Key management compensation

	2019 **Ushs**	**2018** **Ushs**
Short-term employee benefits	**6,216,059,606**	**8,915,678,781**

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

26. Contingent Liabilities

Legal claims

Possible legal claims against the company
Civil Appeal No. 79 of 2018 Godfrey Magezi Vs National Medical Stores, Cipla Quality Chemical Industries and Attorney General

George Magezi filed a suit against CQCIL, National Medical Stores and the Attorney General of Uganda seeking inter alia a declaration that there was a financial loss of US $ 18,082,739 caused by CQCIL and seeking recovery of the said amount from CQCIL.

K & K Advocates filed a successful defence to the claim stating the suit was res judicata, an abuse of court process, and that there was no fraud or misrepresentation on the part of CQCIL. Drugs were supplied in compliance with the contracts executed between National Medical Stores and CQCIL, there was no inflation of prices and no loss was occasioned. The case was dismissed with costs on 09 November 2017.

However, on 20 November 2017, the Plaintiff filed a Notice of appeal against the decision dismissing the suit.

The appellant contends that the learned trial judge erred in law and in fact by upholding the preliminary points of law raised by the defendants and for which the suit was dismissed.

The company has been advised by its external legal counsel that CIPLAQCIL has a good case to the appellant with a high likelihood of success but in the event of the plaintiff succeeding, he could be awarded the claimed amount and costs of up to Ushs 500 million. As such, no provision of liability has been made in the financial statements.

The company has other pending legal claims with estimated total exposures amounting to Ushs 247,932,000 as at 31 March 2019. These are summarized as follows:

NO.	CASE NAME	SUMMARY OF FACTS	FORUM	CONTINGENT LIABILITY AMOUNT (USHS)
1	Civil Appeal No. 05/2017 Semuyaba, & Co. Advocates v CIPLQCIL	Claim for recovery of taxed advocate bill, applicable VAT, interest and costs of the application.	East Africa Court of Justice	Cost for the appeal estimated at Ushs 20,000,000
2	Enock Musasizi Vs. Cipla Quality Chemical Industries Limited	The Plaintiff is seeking compensation for injury allegedly incurred in the course of his employment with CIPLAQCIL due to the negligence of the company.	Nakawa Civil Suit No. 470 of 2016	Compensation amounting to Ushs 36,732,000, Special damages of Ushs 91,200,000, general and punitive damages plus costs.
3	Enock Musasizi Vs. Cipla Quality Chemical Industries Limited	The Claimant seeks alleged terminal benefits for an alleged unlawful termination.	Labour dispute No. 271 of 2016	Ushs 80,000,000
4	Namukoye Lucy Vs CIPLAQCIL	Labour claim instituted in the Industrial court, by a representative of an ex-employee of the company.	Labour dispute No.50 of 2017	Ushs 20,000,000

The company has been advised by its external legal counsels that CIPLAQCIL has a good defence to the claims with a high likelihood of success. As such, no provision of liability has been made in the financial statements.

27. Financial Risk Management

The company's principal financial instruments comprise of cash and bank balances, amounts due from shareholders, trade and other receivables, and trade and other payables. The main purpose of these financial instruments is to raise finance for the company's operations.

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

Foreign currency risk

The company has transactional currency exposures. Such exposure arises from purchases by the company in currencies other than its functional currency (Uganda Shillings).

When the need arises for foreign currency, the company purchases its requirements in the open market, and any exchange gains or losses are immediately posted to profit or loss. Some of the company's sales are in US Dollars. The proceeds from US Dollar sales are used to pay for liabilities denominated in US Dollars as much as is practicable.

Otherwise, the company does not engage in currency derivatives or other measures of managing foreign currency risk. As at 31 March, the company had the following significant foreign currency positions and the equivalent stated in Uganda Shillings:

At 31 March 2019		
Financial assets	US$	Ushs
Bank balances	82,199	304,628,160
Trade and other receivables	29,965,949	111,048,832,785
Due from related parties	632,060	2,342,420,879
	30,680,208	**113,695,881,824**
Financial liabilities		
Trade and other payables	10,458,971	38,760,945,118
Bank Overdraft	14,009,411	51,918,877,981
Due to related parties	6,123,312	22,692,995,909
	30,591,694	**113,372,819,008**
Net position	**88,514**	**323,062,816**
At 31 March 2018		
Financial assets	US$	Ushs
Bank balances	2,399,879	8,838,753,178
Fixed deposit	3,007,978	11,078,381,594
Trade and other receivables	23,140,035	85,224,747,578
Due from related parties	503,954	1,856,062,066
	29,051,846	**106,997,944,416**
Financial liabilities		
Trade and other payables	2,797,906	10,304,687,589
Due to related parties	3,814,802	14,049,916,175
	6,612,708	**24,354,603,764**
Net position	**22,439,138**	**82,643,340,652**

The table below shows the impact of 5%+/- movement in the foreign exchange on the profitability of the company:

	31 March 2019	31 March 2018
	Ushs	Ushs
+5%	66,986,205	58,821,980
-5%	(66,986,205)	(58,821,980)

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract leading to a financial loss. The company is exposed to credit risk from its operating activities, primarily, trade receivables.

The company manages its credit risk by only trading with creditworthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis to minimize the company's exposure to bad debts.

The maximum exposure to credit risk is equivalent to the bank balances and trade and other receivables balance as at the end of the year as indicated below:

	2019	2018
	Ushs	Ushs
Trade and other receivables (note 18)	113,391,253,664	68,934,968,928
Fixed deposit (note 19)	-	11,078,381,594
Bank balances (note 20)	690,016,077	10,531,338,317
	114,081,269,741	**90,544,688,839**

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

	31-Mar-19	31-Mar-18	31-Mar-17
	Ushs '000	Ushs '000	Ushs '000
Government of Uganda (GOU) - NMS	54,153,992	24,488,056	42,424,691
Global Fund to Fight AIDS, Tuberculosis and Malaria	89,965	8,776,001	16,739,399
Ministry of Health - Republic of Zambia	50,422,188	23,876,504	-
Others	6,382,688	9,731,828	7,470,855
	111,048,833	**66,872,389**	**66,634,945**

Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations from its financial liabilities. The risk is monitored by the monthly creditors' analysis and review of the company's cash flows from operations on a regular basis. The directors source money from the company's bankers when the company's cash flows are not adequate to meet creditor demands. The table below analyses the company's financial assets and liabilities into relevant groupings based on the remaining period at 31 March to the contractual maturity dates:

31 March 2019					
	Up to 1 month Ushs '000	Up to 3 months Ushs '000	3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables*	62,541,971	15,736,071	29,977,767	5,135,445	113,391,254
Cash and bank balances	705,245	-	-	-	705,245
	63,247,216	**15,736,071**	**29,977,767**	**5,135,445**	**114,096,499**
Financial liabilities					
Bank Overdraft	-	-	51,918,878	-	51,918,878
Trade and other payables	65,175,791	-	-	-	65,175,791
	65,175,791	**-**	**51,918,878**	**-**	**117,094,669**
Net liquidity gap	**(1,928,575)**	**15,736,071**	**(21,941,111)**	**5,135,445**	**(2,998,170)**

*include related party balances, but excludes prepayments.

At 31 March 2018					
	Up to 1 month Ushs '000	Up to 3 months Ushs '000	3 to 12 months Ushs '000	Above 12 months Ushs '000	Total Ushs '000
Financial assets					
Trade and other receivables*	13,058,402	18,368,919	26,237,677	11,269,971	68,934,969
Fixed deposit	-	-	11,087,741	-	11,087,741
Cash and bank balances	10,557,834	-	-	-	10,557,834
	23,616,236	**18,368,919**	**37,325,418**	**11,269,971**	**90,580,544**
Financial liabilities					
Trade and other payables	14,478,636	11,471,544	6,381,655	440,727	32,772,562
Net liquidity gap	**9,137,600**	**6,897,375**	**30,943,763**	**10,829,244**	**57,807,982**

*excludes prepayments.

Capital management

Capital includes equity attributable to the equity holders of the Company. The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust its return on capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 March 2018 and 31 March 2019.

Fair value measurement

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

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

Valuation models

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

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

  This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The company's current valuation techniques include comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Model inputs and values are calibrated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments and against broker quotes.

As at 31 March 2019, the Company did not hold any financial assets, or financial liabilities, at fair value.

Accounting classifications and fair values

The table below sets out the carrying amounts of each class of assets and liabilities, and their fair values:

	31 March 2019		31 March 2018	
	Carrying amount Ushs '000	Fair value Ushs '000	Carrying amount Ushs '000	Fair value Ushs '000
Assets				
Financial assets				
Trade and other receivables	113,391,254	113,391,254	68,934,969	68,934,969
Fixed deposit	-	-	11,078,382	11,078,382
Cash and bank balances	714,329	714,329	10,557,834	10,557,834
Total financial assets	**114,105,583**	**114,105,583**	**90,571,185**	**90,571,185**
Financial liabilities				
Bank Overdraft	51,918,878	51,918,878	-	-
Trade and other payables	77,582,411	77,582,411	32,772,562	32,772,562
Total financial liabilities	**129,501,289**	**129,501,289**	**32,772,562**	**32,772,562**

The carrying amounts of the above financial assets and liabilities, held at amortised cost on the statement of financial position, approximate their fair values.

Glossary of Abbreviations

Term	Definition
"ACT"	Artemisinin-based combination therapies, the recommended first line therapy by the WHO for non-complicated malaria
"AIDS"	Acquired immunodeficiency syndrome, an infectious disease caused by the human immunodeficiency virus ("HIV")
"Amistad"	Amistad, a company organised and existing under the laws of Mauritius (number 097156C1/GBL), whose registered address is Suite 605, 6th Floor, St James Court, St Denis Street, Mauritius
"API"	Active pharmaceutical ingredient, the ingredient in a pharmaceutical drug that is biologically active and therefore responsible for the beneficial health effects of the drug
"Articles"	The articles of association of the Company
"ARV"	Antiretroviral medications that are used for the treatment of HIV/AIDS
"ASA"	Authorised Selling Agent (in Uganda)
"Auditor" or "Reporting Accountant"	Ernst & Young Certified Public Accountants of Uganda
"BOU"	Bank of Uganda, the Central Bank of the Republic of Uganda
"CAGR"	Compound annual growth rate
"Capitalworks"	Capitalworks SSA 1, a company organised and existing under the laws of Mauritius (number 091966), whose registered address is Level 3, Alexander House, 35 Cybercity, Ebene, Mauritius
"CEO"	Chief Executive Officer of CiplaQCIL
"CFO"	Chief Financial Officer or Head of Finance of CiplaQCIL
"Cipla"	Cipla Limited, a company incorporated in India, having its registered office at Cipla House, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai - 400013, India; is a pharmaceutical manufacturing company (whose WOS, Meditab and Cipla EU, hold shares in CiplaQCIL) thereby effectively holding a majority of the shares in CiplaQCIL
"Cipla EU"	Cipla (EU) Limited, a company incorporated in the United Kingdom, and having its registered office at Dixcart House, Addlestone Road, Bourne Business Park, Addlestone, Surrey, KT15 2LE, United Kingdom, and is a wholly owned subsidiary of Cipla
"CiplaQCIL" or "the Company"	Cipla Quality Chemical Industries Limited, a company incorporated under the laws of Uganda with registration number P.558
"CMA"	The Capital Markets Authority established under the Capital Markets Authority Act (Chapter 84 of the Laws of Uganda) and having registered office at 8th Floor, Jubilee Insurance Centre, 14, Parliament Avenue, Kampala, Uganda

Term	Definition
“Companies Act”	The Companies Act, 2012
"DRP"	Disaster Recovery Plan
“EBITDA”	Earnings before interest, taxation, depreciation and amortisation
“EBITDA Margin”	EBITDA divided by total revenue, expressed as a percentage
“EFT”	Electronic fund transfer
"EHS"	Environmental Health and Safety
"ETP"	Effluent Treatment Plant
“GDP”	Gross domestic product
“GDP per capita”	GDP divided by the population of the country
“Global Fund”	The Global Fund to Fight AIDS, Tuberculosis and Malaria
“GLP”	Good laboratory practices, a set of principles intended to assure the quality and integrity of non-clinical laboratory studies that are intended to support research or marketing permits for products regulated by government agencies
“GMP” or “cGMP”	Good manufacturing practices, a system for ensuring that products are consistently produced and controlled according to quality standards. It is designed to minimise the risks involved in any pharmaceutical production that cannot be eliminated through testing the final product
“GOU”	Government of Uganda
“GOZ”	Government of Zambia
“HIV”	Human Immunodeficiency Virus, the causative agent of AIDS
“IFRS”	International Financial Reporting Standards, which include International Accounting Standards, IFRS pronouncements and interpretations issued by the International Accounting Standards Board
“IMF”	International Monetary Fund
"LDC"	Least Developed Countries
“Listing Regulations”	The Ugandan Capital Markets Authority Act (Cap. 84 of the Laws of Uganda) and the Capital Markets (Prospectus Requirements) Regulations SI 84-2 as amended and all subsidiary legislation and regulations, rules and guidelines promulgated thereunder
“Listing Rules”	The regulations, rules and guidelines of the USE and all subsidiary regulations, rules and guidelines, including USE Listing Rules 2003
“Meditab”	Meditab Holdings Limited, a company incorporated in Mauritius having its registered office at C/o SSG Corporate Services (Mauritius) Ltd, 33 Edith Cavell Street, Port Louis, 11324, Mauritius, and is the wholly owned subsidiary of Meditab Specialities
“Meditab Specialities”	Meditab Specialities Private Limited, a company incorporated in India having its registered office at C1-Pooja Apartment, 17, Hariyali Estate Vikhroli (West), Mumbai - 400 083, Maharashtra, India, and is the wholly owned subsidiary of Cipla

Term	Definition
"MHZ"	Ministry of Health, Zambia
"NDP"	The National Development Plans, for a five-year term, produced by the GOU to guide towards the achievement of the Vision 2040. The second plan, NDP II, was launched in June 2015, covering the fiscal years 2015-16 to 2019-20
"NEMA"	National Environment Management Authority
"NMS"	National Medical Stores
"OHS"	Occupational Health and Safety
"QMS"	Quality Management System
"SCD"	Securities Central Depository, operated by the USE
"SCD 1"	"Form" The form required to be duly completed and submitted in order to open an SCD Account. There are two types of forms, depending upon the customer: SCD 1a for individuals and SCD 1b for organisations
"SCD Account"	Securities depository account, a securities account in the SCD held through an SCD Agent for the purposes of recording and dealing in approved securities by the SCD
"Securities Account"	An SCD Account
"SSA"	Sub-Saharan Africa
"TLG" or "TLG Capital"	A private equity fund that is a beneficial holder of 11.5% of the Shares in CiplaQCIL, through Amistad Limited
"TRIPS"	The Agreement on Trade-Related Aspects of Intellectual Property Rights, administered by the WTO
"UGX" or "Ushs"	Ugandan Shilling, the official currency of the Republic of Uganda
"US$", "USD" or "US Dollar"	United States Dollar, the official currency of the United States of America
"USE"	Uganda Securities Exchange
"WHO"	World Health Organisation
"WHO-certified"	Being cGMP-compliant as determined by WHO inspection and as published on the WHO's website in the Public Inspection Report ("PIR") section
"WOS"	Wholly owned subsidiary/ies
"WTO"	World Trade Organisation

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 not be a member of the Company.

I/We, ____
(Name in block letters)
of ____ (address),
being a shareholder(s) and holder 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 on the 14th day of August, 2019 at the Company Head Office Located at Plot 1-7, 1st Ring Road, Luzira Industrial Park at 11:00 am and at any adjournment thereof as follows:

		Votes		
		For*	Against*	Withheld*
Ordinary resolution				
1	To receive, consider and if approved adopt the annual audited financial statements of the Company for the financial year ended 31st March 2019 and the reports of the Board of Directors and Auditors thereon			
2	To rotate and re-elect directors: -			
2.1	Mr. Paul Miller			
2.2	Mr. Mark Daly			
2.3	Dr. Ranjana Pathak			
2.4	Mr. Nishant Saxena			
3.	To appoint Directors: -			
3.1	Mr. Joseph Baliddawa			
3.2	Dr. Peter Mugyenyi			
3.3	Mr. Stevens Mwanje			
4.	To appoint Grant Thornton as the External Auditors of the Company for the next financial year ending 31 March 2020 and to authorise the Board to set their remuneration.			
Special resolution				
5.	To approve fees payable to Independent Non-Executive Directors during the year until the next Annual General Meeting			

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

Dated this _______ day of _______, 20 ___

Signature: ____________________
Name: _______________________________
Address: ______________________________

Notes

CiplaQCi

ACCESS TO QUALITY AFFORDABLE MEDICINES