

**Alkem Laboratories (Pty) Ltd
(Registration number 2008/012973/07)
Financial statements
for the year ended 31 March 2017**

These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.

Issued 28 April 2017

Alkem Laboratories (Pty) Ltd

(Registration number 2008/012973/07)

Financial Statements for the year ended 31 March 2017

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Registration of and trading in pharmaceutical products
Directors	S Singh DK Singh IS Viljoen S Swaminathan
Registered office	R21 Corporate Office Park 33 Sovereign Road Irene 0157
Holding company	Alkem Laboratories Limited incorporated in India
Bankers	The Standard Bank of South Africa Limited State Bank of India
Auditors	GNR Registered Auditors Chartered Accountants (SA) Registered Auditors
Preparer	The financial statements were independently compiled by: RMC Auditors

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The reports and statements set out below comprise the financial statements presented to the shareholder:

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Supervised by

S Swaminathan
Director

Published

28 April 2017

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(Registration number 2008/012973/07)

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Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.


The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2018 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's financial statements. The financial statements have been examined by the company's external auditors and their report is presented on pages 4 to 5.

The financial statements set out on pages 6 to 28, which have been prepared on the going concern basis, were approved by the board on 28 April 2017 and were signed on its behalf by:

Approval of financial statements


S Singh

28 April 2017



**Chartered Accountants (SA)
Registered Auditors**

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Independent Auditor's Report

To the shareholder of Alkem Laboratories (Pty) Ltd

Opinion

We have audited the Financial Statements of Alkem Laboratories (Pty) Ltd set out on pages 7 to 26, which comprise the Statement of Financial Position as at 31 March 2017, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of Alkem Laboratories (Pty) Ltd as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008.

Basis for opinion

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

Other information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act 71 of 2008 of South Africa, which we obtained prior to the date of this report. Other information does not include the Financial Statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008, and for such internal control as the directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Independent Auditor's Report

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- 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.



GNR Registered Auditors
CR Rademeyer
Partner
Chartered Accountants (SA)
Registered Auditors

28 April 2017
Potchefstroom

Alkem Laboratories (Pty) Ltd

(Registration number 2008/012973/07)

Financial Statements for the year ended 31 March 2017

Directors' Report

The directors have pleasure in submitting their report on the financial statements of Alkem Laboratories (Pty) Ltd for the year ended 31 March 2017.

1. Nature of business

Alkem Laboratories (Pty) Ltd was incorporated in South Africa with interests in the Pharmaceutical industry. The company operates in South Africa.

There have been no material changes to the nature of the company's business from the prior year.

2. Review of financial results and activities

The financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

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

3. Share capital

			2017	2016
Authorised			Number of shares	
Ordinary shares			100,000	15,890
Issued			2017	2016
Ordinary shares	R	R	Number of shares	Number of shares
	14,299,293	158,900	49,960	15,890

Refer to note 6 of the financial statements for detail of the movement in authorised and issued share capital.

4. Directorate

The directors in office at the date of this report are as follows:

Directors			Changes
S Singh	Executive	Indian	
DK Singh	Executive	Indian	
IS Viljoen	Non-executive	South African	
S Swaminathan	Executive	Indian	Appointed 23 August 2016

5. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

6. Auditors

GNR Registered Auditors continued in office as auditors for the company for 2017.

Alkem Laboratories (Pty) Ltd

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Financial Statements for the year ended 31 March 2017

Statement of Financial Position as at 31 March 2017

	Note(s)	2017 R	2016 R
Assets			
Non-Current Assets			
Property, plant and equipment	2	7,237	3,695
Loans to group companies	3	-	52,159
		7,237	55,854
Current Assets			
Trade and other receivables	4	357,907	1,000,721
Cash and cash equivalents	5	17,826,036	2,697,226
		18,183,943	3,697,947
Total Assets		18,191,180	3,753,801
Equity and Liabilities			
Equity			
Share capital	6	14,299,293	158,900
Retained income		449,935	(2,096,620)
		14,749,228	(1,937,720)
Liabilities			
Current Liabilities			
Trade and other payables	7	3,266,977	5,691,521
Current tax payable		174,975	-
		3,441,952	5,691,521
Total Equity and Liabilities		18,191,180	3,753,801

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Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2017 R	2016 R
Revenue	9	22,503,578	17,203,945
Cost of sales		(18,827,113)	(17,000,268)
Gross profit		3,676,465	203,677
Other operating income	10	-	38,648
Other operating gains (losses)	11	831,438	(407,424)
Other operating expenses		(1,786,373)	(855,047)
Operating profit (loss)	12	2,721,530	(1,020,146)
Profit (loss) before taxation		2,721,530	(1,020,146)
Taxation	13	(174,975)	-
Profit (loss) for the year		2,546,555	(1,020,146)
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		2,546,555	(1,020,146)

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Statement of Changes in Equity

	Share capital	Retained income	Total equity
	R	R	R
Balance at 1 April 2015	158,900	(1,076,474)	(917,574)
Loss for the year	-	(1,020,146)	(1,020,146)
Other comprehensive income	-	-	-
Total comprehensive Loss for the year	-	(1,020,146)	(1,020,146)
Balance at 1 April 2016	158,900	(2,096,620)	(1,937,720)
Profit for the year	-	2,546,555	2,546,555
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	2,546,555	2,546,555
Issue of shares	14,140,393	-	14,140,393
Total contributions by and distributions to owners of company recognised directly in equity	14,140,393	-	14,140,393
Balance at 31 March 2017	14,299,293	449,935	14,749,228

Note(s)

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Alkem Laboratories (Pty) Ltd

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Financial Statements for the year ended 31 March 2017

Statement of Cash Flows

	Note(s)	2017 R	2016 R
Cash flows from operating activities			
Cash receipts from customers		16,756,001	16,756,001
Cash paid to suppliers and employees		(15,814,744)	(14,288,767)
Cash generated from operations	14	941,257	2,467,234
Net cash from operating activities		941,257	2,467,234
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(4,999)	(3,747)
Movement in loans to group companies		52,159	(14,916)
Net cash from investing activities		47,160	(18,663)
Cash flows from financing activities			
Proceeds on share issue	6	14,140,393	-
Total cash movement for the year		15,128,810	2,448,571
Cash at the beginning of the year		2,697,226	248,655
Total cash at end of the year	5	17,826,036	2,697,226

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Financial Statements for the year ended 31 March 2017

Accounting Policies

Corporate information

Alkem Laboratories (Pty) Ltd is a public company incorporated and domiciled in South Africa.

The financial statements for the year ended 31 March 2017 were authorised for issue in accordance with a resolution of the directors on .

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

The initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the company is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Major spare parts and stand by equipment which are expected to be used for more than one year are included in property, plant and equipment.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

When an item of property, plant and equipment is revalued, the gross carrying amount is adjusted consistently with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

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Accounting Policies

1.1 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight line	6 years
IT equipment	Straight line	3 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

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

Assets which the company holds for rentals to others and subsequently routinely sells as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.2 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at trade date.

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Accounting Policies

1.2 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to (from) group companies

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables.

Loans from group companies are classified as financial liabilities measured at amortised cost.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.3 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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Accounting Policies

1.3 Tax (continued)

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.4 Inventories

Inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.5 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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Accounting Policies

1.5 Impairment of assets (continued)

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.6 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

1.7 Revenue

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

Royalties are recognised on the accrual basis in accordance with the substance of the relevant agreements.

Dividends are recognised, in profit or loss, when the company's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.8 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.9 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract; and

Accounting Policies

1.9 Cost of sales (continued)

- such other costs as are specifically chargeable to the customer under the terms of the contract.

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Notes to the Financial Statements

2017	2016
R	R

2. Property, plant and equipment

	2017			2016		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Furniture and fixtures	3,747	(676)	3,071	3,747	(52)	3,695
IT equipment	14,584	(10,418)	4,166	9,585	(9,585)	-
Total	18,331	(11,094)	7,237	13,332	(9,637)	3,695

Alkem Laboratories (Pty) Ltd

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Financial Statements for the year ended 31 March 2017

Notes to the Financial Statements

	2017 R	2016 R
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2. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	3,695	-	(624)	3,071
IT equipment	-	4,999	(833)	4,166
	3,695	4,999	(1,457)	7,237

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	-	3,747	(52)	3,695
IT equipment	3,988	-	(3,988)	-
	3,988	3,747	(4,040)	3,695

3. Loans to (from) group companies

Holding company

Alkem Laboratories India	-	52,159
The loan bears no interest and has no fixed terms of payment. The shareholder has no intention to request payment in the next 12 months		

4. Trade and other receivables

Trade receivables	11,799	815,380
VAT	346,108	185,341
	357,907	1,000,721

Split between non-current and current portions

Current assets	357,907	1,000,721
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Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The customers have not defaulted on any payments and therefore the quality is deemed high.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 31 March 2017, R - (2016: R -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

More than 3 months past due	-	224,689
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	2017 R	2016 R
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4. Trade and other receivables (continued)

Trade and other receivables impaired

As of 31 March 2017, trade and other receivables of R 224,689 (2016: R -) were impaired.

The amount of the provision was R - as of 31 March 2017 (2016: R -).

The ageing of these loans is as follows:

Over 6 months	224,689	-
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5. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	17,826,036	2,697,226
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Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating		
BBB+	13,362,166	2,693,479
BBB-	4,463,870	3,747
	17,826,036	2,697,226

6. Share capital

Authorised

Ordinary Shares	100,000	15,890
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Reconciliation of number of shares issued:

Reported as at 1 April 2016	15,890	15,890
Issue of shares – ordinary shares	34,070	-
	49,960	15,890

Issued

Ordinary	14,299,293	158,900
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7. Trade and other payables

Trade payables	2,991,177	5,691,521
Other accrued expenses	275,800	-
	3,266,977	5,691,521

The carrying amounts of trade and other payables are denominated in the following currencies:

Rand	2,571,300	93,565
US Dollar	1,678,718	5,597,956

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	2017 R	2016 R
8. Financial liabilities by category		
The accounting policies for financial instruments have been applied to the line items below:		
2017		
	Financial liabilities at amortised cost	Total
Trade and other payables	2,991,177	2,991,177
2016		
	Financial liabilities at amortised cost	Total
Trade and other payables	5,691,521	5,691,521
9. Revenue		
Sale of goods	22,503,578	17,203,945
10. Other operating income		
Other recoveries	-	38,648
11. Other operating gains (losses)		
Foreign exchange gains (losses)		
Net foreign exchange gains (losses)	831,438	(407,424)
12. Operating profit (loss)		
Operating profit (loss) for the year is stated after charging (crediting) the following, amongst others:		
Auditor's remuneration - external		
Audit fees	11,500	32,000
Auditor's remuneration - internal	70,800	-
Remuneration, other than to employees		
Administrative and managerial services	-	7,468
Consulting and professional services	63,467	51,150
	63,467	58,618
Leases		
Operating lease charges		
Premises	98,025	86,697

Refer to note 15 commitments for additional details of operating leases.

Notes to the Financial Statements

		2017 R	2016 R
12. Operating profit (loss) (continued)			
Depreciation and amortisation			
Depreciation of property, plant and equipment		1,457	4,040
Other			
Other operating gains (losses)	11	831,438	(407,424)

Expenses by nature

The total cost of sales, selling and distribution expenses, marketing expenses, general and administrative expenses, research and development expenses, maintenance expenses and other operating expenses are analysed by nature as follows:

Changes in inventories of finished goods and work in progress		18,827,113	17,000,268
Operating lease charges		98,025	86,697
Depreciation, amortisation and impairment		1,457	4,040
Other expenses		1,686,891	764,310
		20,613,486	17,855,315

13. Taxation

Major components of the tax expense

Current			
Local income tax - current period		174,975	-

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Applicable tax rate		28.00 %	28.00 %
Tax loss used		(21.57)%	- %
Loss making		- %	(28.00)%
		6.43 %	- %

14. Cash generated from operations

(Loss) profit before taxation		2,721,530	(1,020,146)
Adjustments for:			
Depreciation and amortisation		1,457	4,040
(Gains) losses on foreign exchange		(831,438)	407,424
Changes in working capital:			
Inventories		-	563,171
Trade and other receivables		642,814	(380,262)
Trade and other payables		(1,593,106)	2,893,007
		941,257	2,467,234

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Notes to the Financial Statements

	2017 R	2016 R
15. Commitments		
Operating leases – as lessee (expense)		
Minimum lease payments due		
- within one year	100,416	98,025
16. Related parties		
Relationships		
Holding company	Alkem Laboratories Limited	
Related party balances		
Loan accounts - Owing (to) by related parties		
Alkem Laboratories Limited	-	52,159
Amounts included in Trade receivable (Trade Payable) regarding related parties		
Alkem Laboratories Limited	(419,916)	(5,597,956)
Related party transactions		
Purchases from (sales to) related parties		
Alkem Laboratories Limited	7,003,333	4,677,393

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Notes to the Financial Statements

17. Categories of financial instruments

Categories of financial instruments - 2017

Assets

Non-Current Assets

	Note(s)	Debt instruments at amortised cost	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Property, plant and equipment	2	-	-	7,237	7,237
Current Assets					
Trade and other receivables	4	11,799	-	346,108	357,907
Cash and cash equivalents	5	17,826,036	-	-	17,826,036
		17,837,835	-	346,108	18,183,943
Total Assets		17,837,835	-	353,345	18,191,180

Equity and Liabilities

Equity

Equity Attributable to Equity Holders of Parent:

Share capital	6	-	-	14,299,293	14,299,293
Retained income	6	-	-	449,935	449,935
		-	-	14,749,228	14,749,228
Total Equity		-	-	14,749,228	14,749,228

Liabilities

Current Liabilities

Trade and other payables	7	-	3,266,977	-	3,266,977
Current tax payable		-	-	174,975	174,975

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Notes to the Financial Statements

17. Categories of financial instruments (continued)

	Note(s)	Debt instruments amortised cost	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Total Liabilities		-	3,266,977	174,975	3,441,952
Total Equity and Liabilities		-	3,266,977	14,924,203	18,191,180

Categories of financial instruments - 2016

Assets					
Non-Current Assets					
Property, plant and equipment	2	-	-	3,695	3,695
Loans to group companies	3	52,159	-	-	52,159
		52,159	-	3,695	55,854
Current Assets					
Trade and other receivables	4	815,380	-	185,341	1,000,721
Cash and cash equivalents	5	2,697,226	-	-	2,697,226
		3,512,606	-	185,341	3,697,947
Total Assets		3,564,765	-	189,036	3,753,801

Equity and Liabilities

Equity					
Equity Attributable to Equity Holders of Parent:					
Share capital	6	-	-	158,900	158,900
Retained income	6	-	-	(2,096,620)	(2,096,620)
		-	-	(1,937,720)	(1,937,720)

Notes to the Financial Statements

17. Categories of financial instruments (continued)

	Note(s)	Debt instruments at amortised cost	Financial liabilities at amortised cost	Equity and non financial assets and liabilities	Total
Total Equity		-	-	(1,937,720)	(1,937,720)
Liabilities					
Current Liabilities					
Trade and other payables	7	-	5,691,521	-	5,691,521
Total Liabilities		-	5,691,521	-	5,691,521
Total Equity and Liabilities		-	5,691,521	(1,937,720)	3,753,801

18. Risk management

Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

The majority of the Company's Trade receivables are due for maturity within 30 days from the date of billing to the customer. Further, the general credit terms for Trade payables are approximately 30 days. The difference between the above mentioned credit period provides sufficient headroom to meet the short-term working capital needs for day-to-day operations of the Company. Any short-term surplus cash generated, over and above the amount required for working capital management and other operational requirements, are retained as Cash and Investment in short term deposits with banks. The said investments are made in instruments with appropriate maturities and sufficient liquidity.

Exposure to liquidity risk

Trade and other payables	2017R 2,991,177	2016R 5,691,521
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Notes to the Financial Statements

	2017 R	2016 R
18. Risk management (continued)		
Foreign exchange risk		
The company procures internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.		
The company does not hedge foreign exchange fluctuations.		
At 31 March 2017, if the currency had weakened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been R30,234 (2016: R 399,297) higher, mainly as a result of foreign exchange gains or losses on translation of US dollar denominated trade payables.		
Foreign currency exposure at the end of the reporting period		
Non current assets		
Alkem India loan (USD denominated)	-	52,159
Liabilities		
Trade payables (USD denominated)	419,916	5,597,956
Exchange rates used for conversion of foreign items were:		
USD	12.97	15.04

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Detailed Income Statement

	Note(s)	2017 R	2016 R
Revenue			
Sale of goods		22,503,578	17,203,945
Cost of sales			
Opening stock		-	(563,171)
Purchases		(18,827,113)	(16,437,097)
		(18,827,113)	(17,000,268)
Gross profit		3,676,465	203,677
Other operating income			
Other recoveries		-	38,648
Other operating gains (losses)			
Foreign exchange gains (losses)		831,438	(407,424)
Expenses (Refer to page 28)		(1,786,373)	(855,047)
Profit (loss) before taxation		2,721,530	(1,020,146)
Taxation	13	(174,975)	-
Profit (loss) for the year		2,546,555	(1,020,146)

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Detailed Income Statement

	Note(s)	2017 R	2016 R
Other operating expenses			
Administration and management fees		-	(7,468)
Auditors remuneration - external auditors	12	(11,500)	(32,000)
Auditors remuneration - internal audit	12	(70,800)	-
Bad debts		(242,759)	-
Bank charges		(6,046)	(3,937)
Computer expenses		(2,674)	-
Consulting and professional fees - accounting		(57,200)	(51,150)
Consulting and professional fees - legal fees		(6,267)	-
Depreciation		(1,457)	(4,040)
Licencing and Registration fees		(76,400)	(17,700)
Testing		(30,238)	(25,873)
Consulting fees		(1,062,715)	(532,852)
Lease rentals on operating lease		(98,025)	(86,697)
Municipal expenses		(18,067)	(2,021)
Postage		(16,157)	(10,847)
Printing and stationery		(55,565)	(68,187)
Subscriptions		(26,596)	(4,200)
Telephone and fax		(3,499)	(5,800)
Travel - local		(408)	(2,275)
		(1,786,373)	(855,047)