Alkem Laboratories (Pty) Ltd
(Registration number 2008/012973/07)
Financial statements
for the year ended 31 March 2020
These financial statements have been audited in compliance with the applicable requirements of the Companies Act 71 of 2008.
Issued 14 May 2020

## General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Registation of and trading in pharmaceutical products |
| **Directors** | DK Singh<br>IS Viljoen<br>S Swaminathan |
| **Holding company** | Alkem Laboratories Limited<br>incorporated in India |
| **Auditors** | GNR Registered Auditors<br>Chartered Accountants (SA)<br>Registered Auditors |

# Index



**Supervised by**

S Swaminathan
Director

**Published**

14 May 2020

# 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 2021 and, in light of this review and the current financial position, they are satisfied that the company has or had 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 7 to 40, which have been prepared on the going concern basis, were approved by the board on 14 May 2020 and were signed on their behalf by:

**Approval of financial statements**

**S Swaminathan**

**14 May 2020**

GNR Chartered Accountants (SA)
Registered Auditors

☎ 018 293 2726
☎ 018 462 8039 (Klerksdorp)
018 293 2753
018 462 8245 (Klerksdorp)
E-mail: admin@gnrauditors.co.za
E-mail: klerksdorp@gnrauditors.co.za

Peter Mokaba Avenue 86
Potchefstroom
2531

20395
Noordbrug
2522

# Independent Auditor's Report

### To the shareholder of Alkem Laboratories (Pty) Ltd

### Opinion

We have audited the financial statements of Alkem Laboratories (Pty) Ltd (the company) set out on pages 7 to 38, which comprise the statement of financial position as at 31 March 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alkem Laboratories (Pty) Ltd as at 31 March 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act 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 sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. 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 information included in the document titled "Alkem Laboratories (Pty) Ltd financial statements for the year ended 31 March 2020", which includes the Directors' Report as required by the Companies Act 71 of 2008 and the Detailed Income Statement, which we obtained prior to the date of this report. The 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:

- 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**

**14 May 2020**
**Potchefstroom**

# 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 2020.

## 1. 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.

## 2. Share capital

| | | | 2020 | 2019 |
|---|---|---|---|---|
| | | | Number of shares | |
| **Authorised** | | | | |
| Ordinary shares | | | 100,000 | 100,000 |

| | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| | R | R | Number of shares | |
| **Issued** | | | | |
| Ordinary shares | 14,299,293 | 14,299,293 | 49,960 | 49,960 |

There have been no changes to the authorised or issued share capital during the year under review.

## 3. Events after the reporting period

Covid-19, which was initially detected in Wuhan, Hubei province of China in December 2019, has gradually spread in more than 200 countries across the world including India and South Africa. In order to slow down the spread of this virus, a lot of restrictions are imposed in several countries in terms of movement of people and goods. The Indian Government also enforced a nationwide lockdown from 23rd of March 2020, which impacted the manufacturing and supply chain of almost all the companies in India. However several relaxations were allowed for pharmaceutical companies to ensure that there was no shortages of medicines.

While the Company's manufacturing and supply chain in India faced some challenges for a limited period of time due to the above restrictions, the Company ensured uninterrupted supply of its products in the South Africa market. This was due to optimal levels of inventory of raw material and finished drugs that the Company maintains to tide over such uncertain times. As the Government restrictions are getting relaxed in the phased manner, the manufacturing and supply chain issues are normalising and the problems of shortages / delay in shipping of drugs are also getting addressed in a better manner.

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

## 4. Auditors

GNR Registered Auditors continued in office as auditors for the company for 2020.

## Statement of Financial Position as at 31 March 2020

| | Note(s) | 2020<br>R | 2019<br>R |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 3 | 2,644 | 4,464 |
| Intangible assets | 4 | 241,617 | - |
| | | **244,261** | **4,464** |
| **Current Assets** | | | |
| Loans to group companies | 5 | 197,249 | 159,451 |
| Trade and other receivables | 7 | 2,348,814 | 25 |
| Other financial assets | 6 | - | 11,880,761 |
| Current tax receivable | | - | 32,553 |
| Cash and cash equivalents | 8 | 25,577,380 | 11,613,393 |
| | | **28,123,443** | **23,686,183** |
| **Total Assets** | | **28,367,704** | **23,690,647** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Share capital | 9 | 14,299,293 | 14,299,293 |
| Retained income | | 3,503,378 | 2,882,503 |
| | | **17,802,671** | **17,181,796** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 11 | 10,189,332 | 6,400,326 |
| Loans from group companies | 10 | 134,250 | 108,525 |
| Current tax payable | | 241,451 | - |
| | | **10,565,033** | **6,508,851** |
| **Total Equity and Liabilities** | | **28,367,704** | **23,690,647** |

## Statement of Profit or Loss and Other Comprehensive Income

| | Note(s) | 2020 R | 2019 R |
|---|---|---|---|
| Revenue | 12 | 44,946,277 | 42,121,939 |
| Cost of sales | 13 | (40,565,105) | (38,260,586) |
| **Gross profit** | | **4,381,172** | **3,861,353** |
| Other operating gains (losses) | 14 | (726,244) | (444,456) |
| Other operating expenses | | (3,271,581) | (2,864,422) |
| **Operating profit** | 15 | **383,347** | **552,475** |
| Investment income | 17 | 478,979 | 890,460 |
| Finance costs | 18 | - | (2,150) |
| **Profit before taxation** | | **862,326** | **1,440,785** |
| Taxation | 19 | (241,451) | (403,420) |
| **Profit for the year** | | **620,875** | **1,037,365** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | **620,875** | **1,037,365** |

## Statement of Changes in Equity

| | Share capital<br>R | Retained income<br>R | Total equity<br>R |
|---|---|---|---|
| **Balance at 01 April 2018** | **14,299,293** | **1,845,138** | **16,144,431** |
| Profit for the year | - | 1,037,365 | 1,037,365 |
| Other comprehensive income | - | - | - |
| **Total comprehensive Loss for the year** | **-** | **1,037,365** | **1,037,365** |
| **Balance at 01 April 2019** | **14,299,293** | **2,882,503** | **17,181,796** |
| Profit for the year | - | 620,875 | 620,875 |
| Other comprehensive income | - | - | - |
| **Total comprehensive income for the year** | **-** | **620,875** | **620,875** |
| **Balance at 31 March 2020** | **14,299,293** | **3,503,378** | **17,802,671** |
| Note(s) | 9 | | |

The accounting policies on pages 11 to 21 and the notes on pages 22 to 38 form an integral part of the financial statements.

## Statement of Cash Flows

| | Note(s) | 2020 R | 2019 R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 42,597,488 | 43,992,924 |
| Cash paid to suppliers and employees | | (40,747,721) | (40,180,394) |
| Cash generated from operations | 20 | 1,849,767 | 3,812,530 |
| Interest income | | 478,979 | 890,460 |
| Finance costs | | - | (2,150) |
| Tax (paid) received | 21 | 32,553 | (316,785) |
| **Net cash from operating activities** | | **2,361,299** | **4,384,055** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 3 | - | (2,170) |
| Purchase of other intangible assets | 4 | (266,000) | - |
| Movement in loans advanced to group company | | (37,798) | (23,004) |
| Sale of financial assets | | 11,880,761 | (890,460) |
| **Net cash from investing activities** | | **11,576,963** | **(915,634)** |
| **Cash flows from financing activities** | | | |
| Movement of loans from group company | | 25,725 | 15,562 |
| **Net cash from financing activities** | | **25,725** | **15,562** |
| **Total cash movement for the year** | | **13,963,987** | **3,483,983** |
| Cash at the beginning of the year | | 11,613,393 | 8,129,410 |
| **Total cash at end of the year** | 8 | **25,577,380** | **11,613,393** |

# Accounting Policies

## 1. Significant accounting policies

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

### 1.1 Basis of preparation

The financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these financial statements and the Companies Act 71 of 2008 of South Africa, as amended.

These financial statements comply with the requirements of the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The financial statements have been prepared on the historic cost convention, unless otherwise stated in the accounting policies which follow and incorporate the principal accounting policies set out below. They are presented in Rands, which is the company's functional currency.

These accounting policies are consistent with the previous period.

### 1.2 Significant judgements and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

**Critical judgements in applying accounting policies**

Management did not make critical judgements in the application of accounting policies, apart from those involving estimations, which would significantly affect the financial statements.

### 1.3 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.

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.

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:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Furniture and fixtures | Straight line | 6 years |

## Accounting Policies

### 1.3 Property, plant and equipment (continued)

| | | |
|---|---|---|
| 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.

### 1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Patents, trademarks and other rights | Straight line | 5 years |

# Accounting Policies

### 1.5 Financial instruments

Financial instruments held by the company are classified in accordance with the provisions of IFRS 9 Financial Instruments.

Broadly, the classification possibilities, which are adopted by the company ,as applicable, are as follows:

Financial assets which are equity instruments:
- Mandatorily at fair value through profit or loss; or
- Designated as at fair value through other comprehensive income. (This designation is not available to equity instruments which are held for trading or which are contingent consideration in a business combination).

Financial assets which are debt instruments:
- Amortised cost. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is met by holding the instrument to collect contractual cash flows); or
- Fair value through other comprehensive income. (This category applies only when the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on principal, and where the instrument is held under a business model whose objective is achieved by both collecting contractual cash flows and selling the instruments); or
- Mandatorily at fair value through profit or loss. (This classification automatically applies to all debt instruments which do not qualify as at amortised cost or at fair value through other comprehensive income); or
- Designated at fair value through profit or loss. (This classification option can only be applied when it eliminates or significantly reduces an accounting mismatch).

Derivatives which are not part of a hedging relationship:
- Mandatorily at fair value through profit or loss.

Financial liabilities:
- Amortised cost; or
- Mandatorily at fair value through profit or loss. (This applies to contingent consideration in a business combination or to liabilities which are held for trading); or
- Designated at fair value through profit or loss. (This classification option can be applied when it eliminates or significantly reduces an accounting mismatch; the liability forms part of a group of financial instruments managed on a fair value basis; or it forms part of a contract containing an embedded derivative and the entire contract is designated as at fair value through profit or loss).

Note 25 Financial instruments and risk management presents the financial instruments held by the company based on their specific classifications.

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The specific accounting policies for the classification, recognition and measurement of each type of financial instrument held by the company are presented below:

## Accounting Policies

### 1.5 Financial instruments (continued)

**Loans receivable at amortised cost**

**Classification**

Loans to group companies (note 5), loans to shareholders (note ), loans to directors, managers and employees (note ), and loans receivable (note ) are classified as financial assets subsequently measured at amortised cost.

They have been classified in this manner because the contractual terms of these loans give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on these loans.

**Recognition and measurement**

Loans receivable are recognised when the company becomes a party to the contractual provisions of the loan. The loans are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the loan initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Loans denominated in foreign currencies**

When a loan receivable is denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 14).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 25).

## Accounting Policies

**1.5 Financial instruments (continued)**

**Trade and other receivables**

**Classification**

Trade and other receivables, excluding, when applicable, VAT and prepayments, are classified as financial assets subsequently measured at amortised cost (note 7).

They have been classified in this manner because their contractual terms give rise, on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, and the company's business model is to collect the contractual cash flows on trade and other receivables.

**Recognition and measurement**

Trade and other receivables are recognised when the company becomes a party to the contractual provisions of the receivables. They are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost.

The amortised cost is the amount recognised on the receivable initially, minus principal repayments, plus cumulative amortisation (interest) using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance.

**Impairment**

The company recognises a loss allowance for expected credit losses on trade and other receivables, excluding VAT and prepayments. The amount of expected credit losses is updated at each reporting date.

The company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit losses (lifetime ECL), which represents the expected credit losses that will result from all possible default events over the expected life of the receivable.

**Credit risk**

Details of credit risk are included in the trade and other receivables note (note 7) and the financial instruments and risk management note (note 25).

**Borrowings and loans from related parties**

**Classification**

Loans from group companies (note 5), loans from shareholders (note ) and borrowings (note ) are classified as financial liabilities subsequently measured at amortised cost.

**Loans denominated in foreign currencies**

When borrowings are denominated in a foreign currency, the carrying amount of the loan is determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 14).

Details of foreign currency risk exposure and the management thereof are provided in the specific loan notes and in the financial instruments and risk management (note 25).

# Accounting Policies

### 1.5 Financial instruments (continued)

**Trade and other payables**

**Classification**

Trade and other payables (note 11), excluding VAT and amounts received in advance, are classified as financial liabilities subsequently measured at amortised cost.

**Recognition and measurement**

They are recognised when the company becomes a party to the contractual provisions, and are measured, at initial recognition, at fair value plus transaction costs, if any.

They are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

If trade and other payables contain a significant financing component, and the effective interest method results in the recognition of interest expense, then it is included in profit or loss in finance costs (note 18).

Trade and other payables expose the company to liquidity risk and possibly to interest rate risk. Refer to note 25 for details of risk exposure and management thereof.

**Trade and other payables denominated in foreign currencies**

When trade payables are denominated in a foreign currency, the carrying amount of the payables are determined in the foreign currency. The carrying amount is then translated to the Rand equivalent using the spot rate at the end of each reporting period. Any resulting foreign exchange gains or losses are recognised in profit or loss in the other operating gains (losses) (note 14).

Details of foreign currency risk exposure and the management thereof are provided in the financial instruments and risk management note (note 25).

**Cash and cash equivalents**

Cash and cash equivalents are stated at carrying amount which is deemed to be fair value.

### 1.6 Financial instruments: IAS 39 comparatives

**Classification**

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

- Held-to-maturity investment
- 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.

# Accounting Policies

## 1.6 Financial instruments: IAS 39 comparatives (continued)

### 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.

### Subsequent measurement

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

Held-to-maturity investments 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.

### Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity as a reclassification adjustment to other comprehensive income and recognised in profit or loss.

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

# Accounting Policies

### 1.6 Financial instruments: IAS 39 comparatives (continued)

**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.

**Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**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.

**Held to maturity**

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the company has the positive intention and ability to hold to maturity are classified as held to maturity.

## Accounting Policies

### 1.7 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.

**Deferred tax assets and liabilities**

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

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

**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.

### 1.8 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 weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

### 1.8 Inventories (continued)

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.

Inventories includes a "right to returned goods asset" which represents the company right to recover products from customers where customers exercise their right of return under the company returns policy. The company uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. A corresponding adjustment is recognised against cost of sales.

### 1.9 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.

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.

### 1.10 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 recognised at par value and classified as 'share capital' in equity. Any amounts received from the issue of shares in excess of par value is classified as 'share premium' in equity. Dividends are recognised as a liability in the company in which they are declared.

### 1.11 Revenue from contracts with customers

The company recognises revenue from the following major sources:

- Sales of pharmaceutical goods - wholesale

## Accounting Policies

### 1.11 Revenue from contracts with customers (continued)

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The company recognises revenue when it transfers control of a product or service to a customer.

### 1.12 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.

### 1.13 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
- such other costs as are specifically chargeable to the customer under the terms of the contract.

Cost of sales is reduced by the amount recognised in inventory as a "right to returned goods asset" which represents the company right to recover products from customers where customers exercise their right of return under the company returns policy.

### 1.14 Translation of foreign currencies

#### Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In circumstances where the company receives or pays an amount in foreign currency in advance of a transaction, the transaction date for purposes of determining the exchange rate to use on initial recognition of the related asset, income or expense is the date on which the company initially recognised the non-monetary item arising on payment or receipt of the advance consideration.

If there are multiple payments or receipts in advance, company determines a date of transaction for each payment or receipt of advance consideration.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

# Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

## 2. New Standards and Interpretations

### 2.1 Standards and interpretations effective and adopted in the current year

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

| Standard/ Interpretation: | Effective date: Years beginning on or after | Expected impact: |
|---|---|---|
| • IFRS 17 Insurance Contracts | 01 January 2021 | Unlikely there will be a material impact |
| • Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 | 01 January 2019 | Unlikely there will be a material impact |
| • Long-term Interests in Joint Ventures and Associates - Amendments to IAS 28 | 01 January 2019 | Unlikely there will be a material impact |
| • Prepayment Features with Negative Compensation - Amendment to IFRS 9 | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | Unlikely there will be a material impact |
| • Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | The impact of the amendments is not material. |
| • Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 - 2017 cycle | 01 January 2019 | The impact of the amendments is not material. |
| • Uncertainty over Income Tax Treatments | 01 January 2019 | The impact of the amendments is not material. |
| • IFRS 16 Leases | 01 January 2019 | The impact of the amendments is not material. |

## Notes to the Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

### 3. Property, plant and equipment

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost or revaluation** | **Accumulated depreciation** | **Carrying value** | **Cost or revaluation** | **Accumulated depreciation** | **Carrying value** |
| Furniture and fixtures | 5,917 | (3,273) | 2,644 | 5,918 | (2,287) | 3,631 |
| IT equipment | 14,584 | (14,584) | - | 14,584 | (13,751) | 833 |
| **Total** | **20,501** | **(17,857)** | **2,644** | **20,502** | **(16,038)** | **4,464** |

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

### 3. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2020**

| | Opening balance | Depreciation | Total |
|---|---|---|---|
| Furniture and fixtures | 3,631 | (987) | 2,644 |
| IT equipment | 833 | (833) | - |
| | **4,464** | **(1,820)** | **2,644** |

**Reconciliation of property, plant and equipment - 2019**

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Furniture and fixtures | 2,447 | 2,170 | (986) | 3,631 |
| IT equipment | 2,499 | - | (1,666) | 833 |
| | **4,946** | **2,170** | **(2,652)** | **4,464** |

### 4. Intangible assets

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated amortisation** | **Carrying value** | **Cost / Valuation** | **Accumulated amortisation** | **Carrying value** |
| Patents, trademarks and other rights | 266,000 | (24,383) | 241,617 | - | - | - |

**Reconciliation of intangible assets - 2020**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Patents, trademarks and other rights | - | 266,000 | (24,383) | 241,617 |

### 5. Loans to group companies

| **Holding company** | **Basis of accounting** | | |
|---|---|---|---|
| Alkem Laboratories Limited<br>The loan bears no interest and has no fixed terms of payment | Amortised cost | 197,249 | 159,451 |

**Split between non-current and current portions**

| | | |
|---|---|---|
| Current assets | 197,249 | 159,451 |

**Exposure to credit risk**

Loans receivable inherently expose the company to credit risk, being the risk that the company will incur financial loss if counterparties fail to make payments as they fall due.

## Notes to the Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

**5. Loans to group companies (continued)**

**Credit loss allowances**

The following tables set out the carrying amount, loss allowance and measurement basis of expected credit losses for group loans receivable by credit rating grade:

**2020**

| Instrument | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|
| **Loans to holding companies** | | | |
| Alkem Laboratories Limited | Lifetime ECL (not credit impaired) | 197,249 | 197,249 |

**2019**

| Instrument | Basis of loss allowance | Gross Carrying amount | Amortised cost |
|---|---|---|---|
| **Loans to holding companies** | | | |
| Alkem Laboratories Limited | Lifetime ECL (not credit impaired) | 159,451 | 159,451 |

**Total credit loss allowances**

| | | |
|---|---|---|
| Loans to holding companies | 159,451 | 159,451 |
| | **159,451** | **159,451** |

# Notes to the Financial Statements

| | 2020<br>R | 2019<br>R |
|---|---|---|

## 6. Other financial assets - Comparative information as per IAS 39

| | | |
|---|---|---|
| **Held to maturity** | | |
| 18 Month Fixed deposit<br>This is a fixed term interest bearing deposit that will mature within 12 months after year end 2019.. | - | 5,932,826 |
| 24 Month Fixed deposit<br>This is a fixed term interest bearing deposit that will mature within 12 months after year end 2019. | - | 5,947,935 |
| | **-** | **11,880,761** |

| | | |
|---|---|---|
| **Current assets** | | |
| Held to maturity | - | 11,880,761 |

### Held to maturity investments past due but not impaired

Held to maturity investments which are less than 3 months past due are not considered to be impaired. At 31 March 2020, R - (2019: R -) were past due but not impaired.

The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2020 and 2019, as all the financial assets were disposed of at their redemption date.

## 7. Trade and other receivables

| | | |
|---|---|---|
| **Financial instruments:** | | |
| Trade receivables | 2,072,976 | - |
| **Non-financial instruments:** | | |
| VAT | 275,838 | 25 |
| **Total trade and other receivables** | **2,348,814** | **25** |

### Split between non-current and current portions

| | | |
|---|---|---|
| Current assets | 2,348,814 | 25 |

### Categorisation of trade and other receivables

Trade and other receivables are categorised as follows in accordance with IFRS 9: Financial Instruments:

| | | |
|---|---|---|
| At amortised cost | 2,072,976 | - |
| Non-financial instruments | 275,838 | 25 |
| | **2,348,814** | **25** |

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

### 7. Trade and other receivables (continued)

**Exposure to credit risk**

Trade receivables inherently expose the company to credit risk, being the risk that the company will incur financial loss if customers fail to make payments as they fall due.

In order to mitigate the risk of financial loss from defaults, the company only deals with reputable customers with consistent payment histories. Each customer is analysed individually for creditworthiness before terms and conditions are offered. The exposure to credit risk and the creditworthiness of customers, is continuously monitored.

There have been no significant changes in the credit risk management policies and processes since the prior reporting period.

The credit quality of trade and other receivables that are neither past 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.

The Company establishes an allowance for impairment that represents its estimate of expected losses in respect of trade and other receivables.

At 31st March, 2020 and At 31st March, 2019 respectively the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

| | **2020** | **2019** |
|---|---|---|
| South Africa | 2,270,225 | 159,452 |
| Other regions | - | - |
| | **2,270,225** | **159,452** |

Company has exposure to following customer's, having balance more than 10% of the total receivables.

| Customers Name | **2020** Amount | % | **2019** Amount | % |
|---|---|---|---|---|
| Pharmachem Pharmaceuticals | 2,072,976 | 100 | - | - |

**Impairment**

At 31st March 2020 and At 31st March 2019, the ageing of trade and other receivables that were not impaired was as follows:

| | **2020** | **2019** |
|---|---|---|
| Neither past due nor impaired | 197,249 | - |
| Past due 1–180 days | 2,072,976 | - |
| Past due more than 180 days | - | - |
| | **2,270,225** | - |

Management believes that the unimpaired amounts that are past due by more than 180 days are still collectible in full, based on historical payment behaviour and extensive analysis of customer credit risk, including underlying customers' credit ratings if they are available.

**Exposure to currency risk**

Refer to note 25 for details of currency risk management for trade receivables.

**Fair value of trade and other receivables**

The fair value of trade and other receivables approximates their carrying amounts.

## Notes to the Financial Statements

| | 2020<br>R | 2019<br>R |
|---|---|---|

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Bank balances | 25,577,380 | 11,613,393 |

**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** | | |
| BB+ | 25,577,380 | 11,613,393 |

**Exposure to currency risk**

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

### 9. Share capital

| | | |
|---|---|---|
| **Authorised** | | |
| Ordinary shares | 100,000 | 100,000 |

Describe any changes in authorised share capital e.g. Conversion to net present value shares.

| | | |
|---|---|---|
| **Reconciliation of number of shares issued:** | | |
| Reported as at 01 April 2019 | 49,960 | 49,960 |
| **Issued** | | |
| Ordinary | 14,299,293 | 14,299,293 |

### 10. Loans from group companies

| **Holding company** | **Basis of accounting** | | |
|---|---|---|---|
| Alkem Laboratories Limited<br>The loan has no repayment terms, is unsecured and is not interest bearing | Amortised cost | 134,250 | 108,525 |

**Split between non-current and current portions**

| | | |
|---|---|---|
| Current liabilities | 134,250 | 108,525 |

**Exposure to currency risk**

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for group loans payable.

## Notes to the Financial Statements

| | 2020<br>R | 2019<br>R |
|---|---|---|

### 11. Trade and other payables

| | | |
|---|---|---|
| **Financial instruments:** | | |
| Trade payables | 9,584,332 | 5,895,326 |
| Other accrued expenses | 605,000 | 505,000 |
| | **10,189,332** | **6,400,326** |

**Exposure to currency risk**

Refer to note 25 Financial instruments and financial risk management for details of currency risk management for trade payables.

### 12. Revenue

| | | |
|---|---|---|
| **Revenue from contracts with customers** | | |
| Sale of goods | 44,946,277 | 42,121,939 |

**Disaggregation of revenue from contracts with customers**

The company disaggregates revenue from customers as follows:

| | | |
|---|---|---|
| **Sale of goods** | | |
| Sale of pharmaceuticals | 44,946,277 | 42,121,939 |

**Timing of revenue recognition**

| | | |
|---|---|---|
| **At a point in time** | | |
| Sale of goods | (44,946,277) | (42,121,939) |

### 13. Cost of sales

| | | |
|---|---|---|
| Sale of goods | 40,565,105 | 38,260,586 |

| | | |
|---|---|---|
| **Sale of goods** | | |
| Sale of pharmaceuticals | 40,565,105 | 38,260,586 |

### 14. Other operating gains (losses)

| | | |
|---|---|---|
| **Foreign exchange gains (losses)** | | |
| Net foreign exchange loss | (726,244) | (444,456) |

### 15. Operating profit (loss)

Operating profit for the year is stated after charging (crediting) the following, amongst others:

| | | |
|---|---|---|
| **Auditor's remuneration - external** | | |
| Audit fees | 23,000 | 20,850 |

| | | |
|---|---|---|
| **Remuneration, other than to employees** | | |
| Consulting and professional services | 108,290 | 63,600 |

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

### 15. Operating profit (loss) (continued)

**Leases**

| | | |
|---|---|---|
| **Operating lease charges** | | |
| Premises | 156,659 | 138,531 |

| | | |
|---|---|---|
| **Depreciation and amortisation** | | |
| Depreciation of property, plant and equipment | 1,820 | 2,652 |
| Amortisation of intangible assets | 24,383 | - |
| **Total depreciation and amortisation** | **26,203** | **2,652** |

**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 | 40,565,105 | 38,260,586 |
| Operating lease charges | 156,659 | 138,531 |
| Depreciation, amortisation and impairment | 26,203 | 2,652 |
| Other expenses | 3,088,719 | 2,723,239 |
| | **43,836,686** | **41,125,008** |

### 16. Depreciation, amortisation and impairment losses

| | | |
|---|---|---|
| **Depreciation** | | |
| Property, plant and equipment | 1,820 | 2,652 |

| | | |
|---|---|---|
| **Amortisation** | | |
| Intangible assets | 24,383 | - |

| | | |
|---|---|---|
| **Total depreciation, amortisation and impairment** | | |
| Depreciation | 1,820 | 2,652 |
| Amortisation | 24,383 | - |
| | **26,203** | **2,652** |

### 17. Investment income

| | | |
|---|---|---|
| **Interest income** | | |
| **Investments in financial assets:** | | |
| Other financial assets | 478,979 | 890,460 |

### 18. Finance costs

| | | |
|---|---|---|
| Other interest paid | - | 2,150 |

# Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

## 19. Taxation

### Major components of the tax expense

| | | |
|---|---|---|
| **Current** | | |
| Local income tax - current period | 241,451 | 403,420 |

### Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

| | | |
|---|---|---|
| Applicable tax rate | 28.00 % | 28.00 % |

## 20. Cash generated from operations

| | | |
|---|---|---|
| Profit before taxation | 862,326 | 1,440,785 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 26,203 | 2,652 |
| Losses on foreign exchange | 726,244 | 444,456 |
| Interest income | (478,979) | (890,460) |
| Finance costs | - | 2,150 |
| Other non-cash items | 1 | - |
| **Changes in working capital:** | | |
| Trade and other receivables | (2,348,789) | 1,926,390 |
| Trade and other payables | 3,062,761 | 886,557 |
| | **1,849,767** | **3,812,530** |

## 21. Tax (paid) refunded

| | | |
|---|---|---|
| Balance at beginning of the year | 32,553 | 119,188 |
| Current tax for the year recognised in profit or loss | (241,451) | (403,420) |
| Balance at end of the year | 241,451 | (32,553) |
| | **32,553** | **(316,785)** |

## 22. Commitments

### Operating leases – as lessee (expense)

| | | |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 157,000 | 144,000 |

Operating lease payments represent rentals payable by the company for its office. There are no contractual amounts due, apart from the month to month payments made. No contingent rent is payable.

## 23. Contingencies

At 31 March 2020 there were no contingent liabilities.

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|
| **24. Related parties** | | |
| **Relationships** | | |
| Holding company | Alkem Laboratories Limited | |
| **Related party balances** | | |
| **Loan accounts - Owing (to) by related parties** | | |
| Alkem Laboratories Limited | 197,249 | 159,451 |
| Alkem Laboratories Limited | (134,250) | (108,525) |
| **Amounts included in Trade receivable (Trade Payable) regarding related parties** | | |
| Alkem Laboratories Limited | (677,057) | (2,162,860) |
| **Related party transactions** | | |
| **Purchases from (sales to) related parties** | | |
| Alkem Laboratories Limited | 10,593,032 | 11,160,104 |

## Notes to the Financial Statements

| Figures in Rand | 2020 | 2019 |
|---|---|---|

**25. Financial instruments and risk management**

**Categories of financial instruments**

**Categories of financial assets**

**2020**

| | Note(s) | Amortised cost | Total |
|---|---|---|---|
| Loans to group companies | 5 | 197,249 | 197,249 |
| Trade and other receivables | 7 | 2,072,976 | 2,072,976 |
| Cash and cash equivalents | 8 | 25,577,380 | 25,577,380 |
| | | **27,847,605** | **27,847,605** |

**2019**

| | Note(s) | Amortised cost | Total |
|---|---|---|---|
| Loans to group companies | 5 | 159,451 | 159,451 |
| Cash and cash equivalents | 8 | 11,613,393 | 11,613,393 |
| Other financial asset | | 11,880,761 | 11,880,761 |
| | | **23,653,605** | **23,653,605** |

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

### 25. Financial instruments and risk management (continued)

**Categories of financial liabilities**

**2020**

| | Note(s) | Amortised cost | Total |
|---|---|---|---|
| Trade and other payables | 11 | 10,189,332 | 10,189,332 |
| Loans from group companies | 10 | 134,250 | 134,250 |
| | | **10,323,582** | **10,323,582** |

**2019**

| | Note(s) | Amortised cost | Total |
|---|---|---|---|
| Trade and other payables | 11 | 6,400,327 | 6,400,327 |
| Loans from group companies | 10 | 108,525 | 108,525 |
| | | **6,508,852** | **6,508,852** |

**Capital risk management**

| | Note(s) | 2020 R | 2019 R |
|---|---|---|---|
| Loans from group companies | 10 | 134,250 | 108,525 |
| Trade and other payables | 11 | 10,189,332 | 6,400,327 |
| **Total borrowings** | | **10,323,582** | **6,508,852** |
| Cash and cash equivalents | 8 | (25,577,380) | (11,613,393) |
| **Net borrowings** | | **(15,253,798)** | **(5,104,541)** |
| Equity | | 17,802,669 | 17,181,796 |
| Gearing ratio | | (86)% | (30)% |

### 25. Financial instruments and risk management (continued)

**Financial risk management**

**Overview**

The company is exposed to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk (currency risk, interest rate risk and price risk).

**Market risk**

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Company's income or the value of its holdings of financial instruments. Market risk is attributable to all market risk sensitive financial instruments including foreign currency receivables and payables and long term debt. We are exposed to market risk primarily related to foreign exchange rate risk, interest rate risk and the market value of our investments. Thus, our exposure to market risk is a function of investing and borrowing activities and revenue generating and operating activities in foreign currency. The objective of market risk management is to avoid excessive exposure in our foreign currency revenues and costs.

**Credit risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investments in debt securities

The company is exposed to credit risk on loans receivable, trade and other receivables and cash and cash equivalents.

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 rating ( if available) or historical information about counter party default rates.

The maximum exposure to credit risk is presented in the table below:

### 25. Financial instruments and risk management (continued)

| | | 2020 | | | 2019 | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| | | Gross carrying amount | Credit loss allowance | Amortised cost / fair value | Gross carrying amount | Credit loss allowance | Amortised cost / fair value |
| Loans to group companies | 5 | 197,249 | - | 197,249 | 159,451 | - | 159,451 |
| Trade and other receivables | 7 | 2,072,976 | - | 2,072,976 | - | - | - |
| Cash and cash equivalents | 8 | 25,577,380 | - | 25,577,380 | 11,613,393 | - | 11,613,393 |
| | | **27,847,605** | - | **27,847,605** | **11,772,844** | - | **11,772,844** |

**Liquidity risk**

The company is exposed to liquidity risk, which is the risk that the company will encounter difficulties in meeting its obligations as they become due.

The company manages its liquidity risk by effectively managing its working capital and and cash flows. The financing requirements are met through cash generated from operations.

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 10 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.

The maturity profile of contractual cash flows of non-derivative financial liabilities, and financial assets held to mitigate the risk, are presented in the following table. The cash flows are undiscounted contractual amounts.

**2020**

| | | Less than 1 year | Total | Carrying amount |
| --- | --- | --- | --- | --- |
| **Current liabilities** | | | | |
| Trade and other payables | 11 | 10,189,333 | 10,189,333 | 10,189,332 |
| Loans from group companies | 10 | 134,250 | 134,250 | 134,250 |

**2019**

| | | Less than 1 year | Total | Carrying amount |
| --- | --- | --- | --- | --- |
| **Current liabilities** | | | | |
| Trade and other payables | 11 | 6,400,327 | 6,400,327 | 6,400,327 |
| Loans from group companies | 10 | 108,525 | 108,525 | 108,525 |

**Foreign currency risk**

The company is exposed to foreign currency risk as a result of certain transactions and borrowings which are denominated in foreign currencies. Exchange rate exposures are managed within approved policy parameters. Foreign forward exchange contracts are not used. The foreign currencies in which the company deals primarily are US Dollars.

## Notes to the Financial Statements

| | | 2020<br>R | 2019<br>R |
|---|---|---|---|

### 25. Financial instruments and risk management (continued)

**Exposure in Rand**

The net carrying amounts, in Rand, of the various exposures, are denominated in the following currencies. The amounts have been presented in Rand by converting the foreign currency amounts at the closing rate at the reporting date:
**US Dollar exposure:**

| | | | |
|---|---|---|---|
| **Current assets:** | | | |
| Group loans | 5 | 197,249 | 159,451 |
| **Current liabilities:** | | | |
| Trade and other payables | 11 | (677,057) | (2,162,860) |
| Group loan | 10 | (134,250) | (113,834) |
| **Net US Dollar exposure** | | **(614,058)** | **(2,117,243)** |

**Exposure in foreign currency amounts**

The net carrying amounts, in foreign currency of the above exposure was as follows:

**US Dollar exposure:**

| | | | |
|---|---|---|---|
| **Non-current assets:** | | | |
| Group loans | 5 | 11,019 | 11,019 |
| **Non-current liabilities:** | | | |
| Group loans | 10 | (7,500) | (7,500) |
| **Current liabilities:** | | | |
| Trade and other payables | 11 | (37,824) | (149,473) |
| **Net US Dollar exposure** | | **(34,305)** | **(145,954)** |

**Exchange rates**

| | | |
|---|---|---|
| **Rand per unit of foreign currency:** | | |
| US Dollar | 17.900 | 14.470 |

**Foreign currency sensitivity analysis**

The following information presents the sensitivity of the company to an increase or decrease in the respective currencies it is exposed to. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated amounts and adjusts their translation at the reporting date. No changes were made to the methods and assumptions used in the preparation of the sensitivity analysis compared to the previous reporting period.

**Company**

At 31 March 2020, if the Rand/dollar exchange rate had been 10.000% (2019: 10.000%) higher or lower during the period, with all other variables held constant, profit or loss for the year would have been R 61,862 (2019: R 152,441) higher and R 61,862 (2019: R 152,441) lower.

## Notes to the Financial Statements

| | 2020 R | 2019 R |
|---|---|---|

### 25. Financial instruments and risk management (continued)

**Capital management**

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. At present there is no requirement of borrowed fund and company is intending to carry the business with its own equity.

### 26. Events after the reporting period

Covid-19, which was initially detected in Wuhan, Hubei province of China in December 2019, has gradually spread in more than 200 countries across the world including India and South Africa. In order to slow down the spread of this virus, a lot of restrictions are imposed in several countries in terms of movement of people and goods. The Indian Government also enforced a nationwide lockdown from 23rd of March 2020, which impacted the manufacturing and supply chain of almost all the companies in India. However several relaxations were allowed for pharmaceutical companies to ensure that there was no shortages of medicines.

While the Company's manufacturing and supply chain in India faced some challenges for a limited period of time due to the above restrictions, the Company ensured uninterrupted supply of its products in the South Africa market. This was due to optimal levels of inventory of raw material and finished drugs that the Company maintains to tide over such uncertain times. As the Government restrictions are getting relaxed in the phased manner, the manufacturing and supply chain issues are normalising and the problems of shortages / delay in shipping of drugs are also getting addressed in a better manner.

No adjustments were made to the results for the year due to this event.

### 27. Segment reporting

| | 2020 R | 2019 R |
|---|---|---|
| **Geographical segment** | | |
| Revenue from South African customers | 44,946,277 | 42,121,939 |

The Company is in the pharmaceutical business. As the Company has a single reportable segment, segment wise disclosure is not applicable but is provided entity wise.

### 28. Major Customers having external revenue exceeded 10% of total revenue

| | 2020 R | 2019 R |
|---|---|---|
| **Customer** | | |
| Medpro Pharmaceutica (Pty) Ltd | 34,920,963 | 31,244,175 |
| Pharmachem Pharmaceuticals (Pty) Ltd | 10,025,314 | 8,305,026 |
| Other customers | - | 2,572,738 |
| | **44,946,277** | **42,121,939** |

# Detailed Income Statement

| | Note(s) | 2020<br>R | 2019<br>R |
|---|---|---|---|
| **Revenue** | | | |
| Sale of goods | | 44,946,277 | 42,121,939 |
| **Cost of sales** | | | |
| Purchases | | (40,565,105) | (38,260,586) |
| **Gross profit** | | **4,381,172** | **3,861,353** |
| **Other operating gains (losses)** | | | |
| Foreign exchange losses | | (726,244) | (444,456) |
| **Expenses (Refer to page 40)** | | **(3,271,581)** | **(2,864,422)** |
| **Operating profit** | 15 | **383,347** | **552,475** |
| Investment income | 17 | 478,979 | 890,460 |
| Finance costs | 18 | - | (2,150) |
| **Profit before taxation** | | **862,326** | **1,440,785** |
| Taxation | 19 | (241,451) | (403,420) |
| **Profit for the year** | | **620,875** | **1,037,365** |

## Detailed Income Statement

| | Note(s) | 2020 R | 2019 R |
|---|---|---|---|
| **Other operating expenses** | | | |
| Amortisation | | (24,383) | - |
| Auditors remuneration - external auditors | 15 | (23,000) | (20,850) |
| Bank charges | | (7,115) | (9,220) |
| Computer expenses | | - | (7,744) |
| Consulting and professional fees - accounting | | (71,400) | (63,600) |
| Consulting and professional fees - legal fees | | (36,890) | - |
| Depreciation | | (1,820) | (2,652) |
| Licencing and Registration fees | | (504,695) | (715,100) |
| Testing | | (93,981) | (93,597) |
| Consulting fees | | (1,239,135) | (912,880) |
| New dossiers consultation and preparation | | (378,707) | (360,000) |
| Regulatory samples | | (131,827) | (404,496) |
| Other MCC fees | | (41,360) | (28,000) |
| General expenses | | - | (137) |
| Due diligence | | (441,766) | - |
| Lease rentals on operating lease | | (156,659) | (138,531) |
| Municipal expenses | | (24,101) | (22,995) |
| Postage | | (31,473) | (22,048) |
| Printing and stationery | | (8,934) | (12,122) |
| Repairs and maintenance | | - | (3,000) |
| Subscriptions | | (43,692) | (31,902) |
| Telephone and fax | | (7,781) | (7,663) |
| Travel - local | | (2,862) | (7,885) |
| | | **(3,271,581)** | **(2,864,422)** |