The Pharma Network LLP

Financial Statements

For the year ended March 31, 2020

THE PHARMA NETWORK LLP

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THE PHARMA NETWORK LLP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED MARCH 31, 2020

Management of The Pharma Network LLP (hereinafter – "the Company") is responsible for the preparation of the financial statements, that fairly present, in all material respects, financial position of the Company as at March 31, 2020, and the results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards (hereinafter – "IFRSs").

In preparing the financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the requirements of IFRSs is insufficient for users of the financial statements to understand the impact of particular transactions, as well as other events and conditions on the financial position and financial results of the Company's operations; and
- assessment of the Company's ability to continue as a going concern in the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining the effective and reliable functionality of the internal control system of the Company;
- maintaining adequate accounting system, that are sufficient to show and explain the Company's transactions and allowing the preparation of information about the Company's financial position at any time with reasonable accuracy, and to ensure compliance of financial statements with IFRSs;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Republic of Kazakhstan and IFRSs;
- adopting measures within its competence to safeguard assets of the Company; and
- and preventing and detecting fraud and other irregularities.

The financial statements for the year ended March 31, 2020 were approved by management of the Company on April 30, 2020.

General Director ______________________ Parikh V.G.

Chief Accountant ______________________ Uskembayeva A.M.

Grant Thornton LLP

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INDEPENDENT AUDITOR'S REPORT

To owner and management of The Pharma Network LLP

Opinion

We have audited the financial statements of The Pharma Network LLP (hereinafter - the "Company"), which comprise the statement of financial position as at March 31, 2020, and statement of profit and 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 management;

- conclude on the appropriateness of management's 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 Pharma Network LLP'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.

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with those charged with governance of The Pharma Network LLP 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.

Grant Thornton LLP

Yerzhan Dossymbekov

General Director
Grant Thornton LLP

Tatyana Gutova

Engagement partner

Certified Auditor of the Republic of Kazakhstan
Certificate #MF-0000314 on December 23, 1996

State license #18015053 dated August 3, 2018 (the date of primary issue - July 27, 2011) for providing audit services on the territory of the Republic of Kazakhstan, issued by the Internal State Audit Committee of the Ministry of Finance of the Republic of Kazakhstan.

April 30, 2020
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2020

In thousands of tenge	Notes	March 31, 2020	March 31, 2019
ASSETS			
Non-current assets			
Property, plant and equipment	5	**52,720**	51,492
Deferred corporate income tax assets	17	**14,362**	17,030
Total non-current assets		67,082	**68,522**
Current assets			
Inventories	6	**822,099**	477,922
Accounts receivable	7	**269,615**	290,637
Advances paid	8	**11,888**	13,716
Other current assets		6,025	6,014
Cash and cash equivalents	9	**320,818**	256,199
Total current assets		**1,430,445**	**1,044,488**
TOTAL ASSETS		**1,497,527**	**1,113,010**
EQUITY AND LIABILITIES			
Equity			
Charter capital	10	**832,162**	832,162
Accumulated losses		(292,669)	(208,363)
TOTAL EQUITY		539,493	623,799
Current liabilities			
Accounts payable	11	**905,762**	418,777
Advances received		–	1,018
Other taxes payable	12	**11,572**	8,587
Provisions	13	**36,366**	40,987
Other current liabilities	14	**4,334**	19,842
Total current liabilities		**958,034**	**489,211**
TOTAL LIABILITIES		958,034	489,211
TOTAL EQUITY AND LIABILITIES		1,497,527	1,113,010

The notes on pages 5 – 24 are an integral part of these financial statements.

General Director ______________________ Parikh V.G.

Chief Accountant ______________________ Uskembayeva A.M.

April 30, 2020
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED MARCH 31, 2020

In thousands of tenge	Notes	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Revenue from contracts with customers	15	**1,336,878**	1,100,658
Cost of goods sold		**(515,235)**	(457,913)
Gross profit		**821,643**	**642,745**
Selling, general and administrative expenses	16	**(810,068)**	(755,676)
(Impairment loss) / recovery of impairment losses on financial assets	7, 9	**(6,965)**	1,850
Foreign exchange (loss) / gain		**(95,873)**	5,269
Other operating income		**5,199**	3,895
Other operating expenses		**(3,960)**	(8,072)
Operating loss		**(90,024)**	**(109,989)**
Finance income		**8,386**	9,851
Loss before corporate income tax		**(81,638)**	**(100,138)**
Corporate income tax (expense) / benefit	17	**(2,668)**	1,652
Net loss for the year		**(84,306)**	**(98,486)**
Other comprehensive income		–	–
Total comprehensive loss for the year		**(84,306)**	**(98,486)**

The notes on pages 5 – 24 are an integral part of these financial statements.

General Director — Parikh V.G.

Chief Accountant — Uskembayeva A.M.

April 30, 2020
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED MARCH 31, 2020

In thousands of tenge	Charter capital	Accumulated losses	Total equity
As at March 31, 2019	**832,162**	(98,892)	**733,270**
Effect on impact of IFRS 9 (Notes 7, 9)	–	*(10,985)*	*(10,985)*
As at April 1, 2019	**832,162**	**(109,877)**	**722,285**
Loss for the year	–	*(98,486)*	*(98,486)*
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	(98,486)	(98,486)
As at March 31, 2019	**832,162**	(208,363)	**623,799**
Loss for the year	–	*(84,306)*	*(84,306)*
Other comprehensive income	–	–	–
Total comprehensive loss for the year	–	(84,306)	(84,306)
As at March 31, 2020	**832,162**	**(292,669)**	**539,493**

The notes on pages 5 – 24 are an integral part of these financial statements.

General Director ____________ Parikh V.G.

Chief Accountant ____________ Uskembayeva A.M.

April 30, 2020
Almaty, the Republic of Kazakhstan

THE PHARMA NETWORK LLP

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2020

In thousands of tenge	Notes	For the year ended March 31, 2020	For the year ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Loss before corporate income tax		**(81,638)**	(100,138)
Adjustments for:			
Depreciation of property, plant and equipment	16	**23,336**	26,518
Amortization of intangible assets	16	**76**	5
Gain on disposal of property, plant and equipment		**(5,039)**	(3,895)
Allowance for doubtful accounts	16	**–**	4,333
Finance income		**(8,386)**	(9,851)
(Recovery of) / provision for obsolete and slow-moving inventories	16	**(3,151)**	1,740
Other provisions		**(4,621)**	3,897
Unrealized foreign exchange loss		**71,503**	4,797
Impairment loss / (recovery of impairment losses) on cash and cash equivalents	9	**8,846**	(1,400)
Impairment loss on accounts receivable	7	**(1,881)**	(450)
Operating cash flows before changes in working capital		(955)	**(74,444)**
Changes in working capital:			
Changes in inventories		**(341,026)**	(186,725)
Changes in accounts receivable		**22,903**	23,618
Changes in advances paid		**1,828**	3,878
Changes in other current assets		**(115)**	(3,617)
Changes in accounts payable		**379,230**	231,342
Changes in advances received		**(1,018)**	878
Changes in other taxes payable		**2,985**	(1,319)
Changes in other current liabilities		**(15,508)**	12,105
Cash received from operating activities after changes in working capital		**48,324**	**5,716**
Corporate income tax paid		**–**	–
Interest received		**8,490**	10,131
Net cash received from operating activities		56,814	15,847
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisition of property, plant and equipment and intangible assets		**(24,886)**	(36,732)
Proceeds from sale of property, plant and equipment		**5,285**	5,129
Net cash used in investing activities		(19,601)	**(31,603)**
Net increase / (decrease) in cash and cash equivalents		**37,213**	(15,756)
The effect of changes in foreign exchange rates		**36,252**	(4,797)
Cash and cash equivalents at the beginning of the year	9	**256,199**	281,820
Provision for expected credit losses	9	**(8,846)**	1,400
Adjustments as at the date of initial recognition of IFRS 9	9	**–**	(6,468)
Cash and cash equivalents at the end of the year	9	**320,818**	**256,199**

The notes on pages 5 – 24 are an integral part of these financial statements.

General Director ______ Parikh V.G.

Chief Accountant ______ Uskembayeva A.M.

April 30, 2020
Almaty, the Republic of Kazakhstan

1. GENERAL INFORMATION

The Pharma Network LLP (the "Company") was registered on August 16, 2012, by Almaty department of Ministry of Justice of the Republic of Kazakhstan.

As at March 31, 2020 and 2019, the sole owner of the Company was Alkem Laboratories Limited, India (the "Parent Company"). The Parent's shares are listed on the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited.

The main activity of the Company is purchase and subsequent wholesale of pharmaceutical drugs.

The Company has a license #FD64600532KA dated November 29, 2012 issued by the State Institution Department of the Control Committee for Medical and Pharmaceutical Activities to engage in wholesale of pharmaceutical drugs.

Legal address of the Company is: 21B, Konayev st., Almaty, the Republic of Kazakhstan.

The number of employees of the Company as at March 31, 2020 was 47 people (March 31, 2019: 47 people)

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

Operating environment

The economy of the Republic of Kazakhstan continues to show the features inherent in developing countries. Among others, such characteristics include the absence of a freely convertible national currency outside the country and a low level of liquidity of debt and equity securities in the markets.

The prospects for the economic stability of the Republic of Kazakhstan substantially depend on the effectiveness of economic measures undertaken by the Government, as well as the development of the legal, regulatory and political systems that are outside the scope of control of the Company.

The financial condition and future activities of the Company may deteriorate due to continuing economic problems inherent in a developing country. Management cannot foresee either the degree or duration of economic difficulties or assess their impact, if any, on these financial statements.

During first months of 2020, global market faced with the uncertainties triggered by the outbreak of coronavirus. In line with other factors coronavirus pandemic resulted in decrease in stock market indices as well as devaluation of Kazakhstani tenge to US Dollar. Additionally, starting from March 16, 2020, because of outbreak of coronavirus the Government of the Republic of Kazakhstan have declared the state of emergency and later quarantine in the most of cities. The effect of those significant changes may have significant impact on overall development of Kazakhstani economy and operations of the Company as a whole. As the result of such conditions, business deviation from normal activities certainly takes place. It is impossible to predict how deep the consequences can be. It depends on the duration of the measures and the speed of economic recovery. The management of the Company predicts this situation to be short-term and temporary and follows the previously accepted strategy of the Company. In the meantime, the management of the Company introduced several measures to ensure the safety and wellbeing of their employees and customers.

Statement of compliance

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as approved by the International Accounting Standards Board (IASB).

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

Basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial instruments initially recognized at fair value.

Historical cost is generally determined based on the fair value of the consideration given in return for assets and services.

Fair value is the price which would have been received upon the sale of an asset or paid upon the transfer of liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if the characteristics were taken into account by market participants.

In addition, for financial reporting purposes, fair value measurements are categorized into levels based on the observability of the initial data and their significance for the assessment:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – inputs that does not correspond to Level 1 but is observable for the asset or liability, either directly or indirectly; and
- Level 3 - unobservable inputs for the asset or liability.

Accrual basis

These financial statements were prepared on the accrual basis. The accrual basis assumes recognition of the results of business operations, as well as events when they occurred, regardless of the time of payment. Transactions and events are recorded in the accounting and included in the financial statements for the periods to which they relate.

Recognition of the elements of financial statements

These financial statements include all assets, liabilities, equity, revenues and expenses, which are the elements of the financial statements. All elements of the financial statements are presented on a linear basis. The inclusion of several elements of the financial statements into a single line item is made taking into account their characteristics (functions) in the Company's operations. Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

Going concern basis

These financial statements have been prepared on the assumption that the Company will continue as a going concern. It assumes the realization of assets and settlement of liabilities in the ordinary course of business in the foreseeable future. However, for the year ended March 31, 2020, the Company incurred a total comprehensive loss of 84,306 thousand tenge (for the year ended March 31, 2019: 98,486 thousand tenge), and as at March 31, 2020, the Company's accumulated loss amounted to 292,669 thousand tenge (March 31, 2019: 208,363 thousand tenge). However, management believes that the Company will continue as a going concern due to the following reasons:

- the Company has a strategic plan for 3 upcoming years for increasing its future profits by introducing three new products on the Kazakhstani market, increasing its average selling prices by 8%, expansion of marketing program and expanding its market share by opening 4 new offices in Kazakhstan – Kostanai, Petropavlosk, Pavlodar and Kokshetau. This strategic program expected to generate additional net income of the Company by 100 mln. tenge for the year ending March 31, 2021;
- the current contract to purchase pharmaceutical drugs from the Parent is valid until November 2021, which will allow the Company to generate revenues from customers. During April 2019, the Company signed a contract with the Parent with duration until 2022;

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

Going concern basis (continued)

- price setting strategy of the Parent for pharmaceutical drugs will allow Company to meet its arising current obligations to third parties;
- the Company successfully works with its major customers during long period, who are famous distributors of pharmaceutical products on Kazakhstani market.

Management does not have any intention or necessity to liquidate or significantly reduce the size of its business and believes that the Company will continue as a going concern.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Standards and interpretations adopted in the current year

The Company during the year adopted the following new and revised standards effective January 1, 2019:

- IFRS 16 Leases;
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatment;
- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- Amendments to IAS 28: Long-term interests in associates and joint ventures;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Annual Improvements IFRS 2015-2017:
    - IFRS 3 Business Combinations;
    - IFRS 11 Joint Arrangements;
    - IAS 12 Income Taxes;
    - IAS 23 Borrowing Costs.

IFRS 16 Leases

IFRS 16 replaced IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The accounting treatment for a lessor in accordance with IFRS 16 is virtually unchanged compared to IAS 17. Lessors will continue to classify leases using the same classification principles as in IAS 17, identifying two types of leases: operating and financial. Therefore, the application of IFRS 16 did not affect the accounting for leases in which the Company is the lessor.

The Company applies IFRS 16 as of January 1, 2019, using a modified retrospective approach. Under this approach, the standard is applied retrospectively with recognition of the cumulative effect of its initial application at the date of initial application.

During transition to a standard, the Company decided to use practical simplification, which allows the standard to be applied only to contracts that were previously identified as leases using IAS 17 and IFRIC 4. At the date of initial application, the Company also decided to use exemptions for recognition of leases for which the lease term at the start date of the lease is no more than 12 months and which do not contain an option to purchase (short-term leases), as well as for leases in which the underlying asset is a low value asset (rent of assets with a low value).

The Company analyzed all leases in accordance with IFRS 16 and concluded that the effect of applying IFRS 16 did not have a material effect on the financial statements of the Company.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Standards and interpretations adopted in the current year (continued)

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, does not include special requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately;
- the assumptions an entity makes about the examination of tax treatments by taxation authorities;
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- how an entity considers changes in facts and circumstances.

The Company determines whether to consider each undefined tax treatment separately or together with one or more other undefined tax treatments and uses an approach that allows you to more accurately predict the outcome of resolving the uncertainty.

The Company uses significant judgment when identifying uncertainty regarding the rules for calculating income tax. The Company determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments will be accepted by the taxation authorities.

This explanation had no impact on the Company's financial statements.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the financial statements of the Company.

Annual Improvements IFRS 2015-2017 (issued in December 2017)

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period. These improvements had no impact on the financial statements of the Company.

Management believes that the amendments to IAS 28: Long-term investments in associates and joint ventures, amendments to IAS 19: Plan Amendment, Curtailment or Settlement and improvements to IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint venture Agreements are not applicable to the Company.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

New and revised IFRS – issued but not yet effective

The Company has not applied the following new and revised IFRS and Interpretations (issued but not yet effective):

- Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture[2];
- IFRS 17 Insurance Contracts [1];

[1] *Effective for annual periods beginning on or after January 1, 2020, with permission of early adoption.*
[2] *IFRS has postponed the effective date of these amendments for an indefinite period.*

Management believes that the amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture, IFRS 17 Insurance Contracts are not applicable to the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

The Company maintains its accounting records in tenge which is its functional currency. The tenge is not a fully convertible currency outside of Kazakhstan. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction using exchange rates set by the Kazakhstan Stock Exchange (hereinafter – "KASE").

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. All differences arising from a change in exchange rates subsequent to the date of a transaction are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined.

As at March 31, 2020, currency exchange rates of KASE used by the Company in preparing the financial statements are as follows: 1 US dollar was equal to 447.67 tenge (March 31, 2019: 380.04 tenge per 1 USD dollar).

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the acquisition cost including import duties and non-recoverable taxes and borrowing costs for long-term construction projects if the recognition criteria are met, so as direct costs related to bringing the asset to working condition and delivery to the place of the intended use.

Subsequent costs relating to an item of property, plant and equipment, which has been already recognized, increase its carrying amount when it is highly probable that the Company will receive future economic benefits, which exceed the initially calculated standard parameters for the existing asset.

All other costs are recognized as expenses in the reporting period when they are incurred.

After initial recognition as an asset, the item of property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses, if any.

The useful life of property, plant and equipment is determined taking into account the expected use of an asset and may be shorter than its economic life. The useful life of property, plant and equipment is a matter of judgment based on the experience with similar assets.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

The Company determines the following average useful lives for property, plant and equipment:

Category of property, plant and equipment	Useful life
Office equipment	3 – 7 years
Furniture and fixtures	7 years
Vehicles	4 years
Other	7 – 10 years

The useful life of items of property, plant and equipment and their residual value may be revised by management as necessary, considering all factors, which influence future economic benefits and the Company's intention with respect to the use of property, plant and equipment.

Depreciation of property, plant and equipment is recognized in the statement of profit or loss and other comprehensive income and is calculated using the straight-line method over the expected useful lives of the assets.

Upon sale or disposal of asset, its cost and accumulated depreciation are eliminated from the respective accounts, and any gain or loss resulted from its disposal are included in the statement of profit or loss and other comprehensive income.

Inventories

Inventories are initially recognized at purchase cost, which includes the purchase price, import duties and other non-recoverable taxes, and transportation expenses, handling and other costs directly attributable to the purchase of inventories.

Weighted average costing method is used for measuring cost of inventories, under which the cost of each item is determined from the weighted average cost of similar items at the beginning of a period and the cost of similar items purchased during the period.

The weighted average amount is calculated on a periodic basis, as each additional inventory is received.

After initial recognition, inventories are measured at the lower of cost or net realizable value. The amount of partial write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the reporting period when the write-down or loss occur. The amount of any recovery of the write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction of previously recognized expenses in the period in which the recovery occurs.

Inventories are written down to net realizable value item by item.

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the relevant financial instrument.

With the exception of accounts receivable, on initial recognition, the Company assesses a financial asset or financial liability at a fair value increased or decreased in the case of a financial asset or financial liability recorded at fair value through profit and loss for the amount of transaction costs that are directly relate to the acquisition or issue of a financial asset or financial liability.

The Company has the following financial assets: cash and cash equivalents (Note 9) and accounts receivable (Note 7).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets

According to the selected business model and cash flow characteristics, financial assets are classified into the following categories:

- measured at amortized cost;
- at fair value through profit or loss;
- measured at fair value through other comprehensive income.

Subsequently, the Company's financial assets are carried at amortized cost using the effective interest rate.

A financial asset is carried at amortized cost if two criteria are met:

- the purpose of the business model is to hold a financial asset to obtain all contractual cash flows. The business model is determined by the management of the Company; and
- contractual cash flows are represented only by interest and principal payments. Remuneration is a payment for the time value of money and the credit risk associated with the principal debt to be paid in a certain period of time.

If at least one of the above criteria is not met, the financial asset is measured at fair value.

Amortized cost is estimated using the effective interest method. The effective interest rate is the discount rate of expected future cash flows (including all payments received or made on a debt instrument that are an integral part of the effective interest rate, transaction costs and other premiums or discounts) for the expected time to maturity of the debt instrument or (if applicable) for a shorter period to the book value at the time of adoption of the debt instrument for accounting.

Cash and cash equivalents

Cash and cash equivalents include cash in savings accounts for up to 90 days and cash in current bank accounts that are subject to an insignificant risk of changes in value. After initial recognition, cash and cash equivalents are accounted for net of the estimated reserve for expected credit losses.

Accounts receivable

At initial recognition, the Company estimates accounts receivable at transaction price, if accounts receivable do not contain a significant component of financing in accordance with IFRS 15. Subsequently, this asset is measured at amortized cost, less an allowance for estimated credit losses.

Derecognition

A financial asset (or, where applicable - part of a financial asset or part of a group of similar financial assets) is derecognized in the statement of financial position if:

- the rights to receive cash flows from the assets otherwise expire;
- the Company has transferred the rights to receive cash flows from the asset or made a commitment to pay the received cash flows to a third party in full and without significant delay under the pass–through agreement; and either (a) the Company has transferred practically all the risks and rewards of the asset; or (b) the Company did not transfer, but does not retain practically all the risks and benefits from the asset for itself, but retained control over the asset. If the Company transferred all its rights to receive cash flows from the asset, or entered into a pass-through agreement, it assesses whether it retained the risks and benefits associated with the right of ownership, and if so, to what extent;

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition (continued)

- if the Company neither transferring nor retaining practically all the risks and benefits of the asset, and nor retaining control over the asset, the new asset is recognized to the extent that the Company continues to participate in the retaining asset. In this case, the Company also recognizes a corresponding liability.

The transferred asset and the corresponding liability are assessed on a basis that reflects the rights and obligations reserved by the Company. Ongoing participation, which takes the form of a guarantee on the transferred asset, is recognized at the lowest of the following values: the initial book value of the asset or the maximum amount that may be demanded from the Company.

Impairment of financial assets

The Company recognizes an estimated provision for expected credit losses on financial assets measured at amortized cost, which is defined as the difference between all contractual cash flows owed to the Company and the cash flows that it actually expects to receive. The shortfall is then discounted at a rate approximately equal to the initial effective interest rate for the asset.

When assessing credit risk and estimating expected credit losses, the Company categorizes its customers into groups by category and by industry. The Company assessed the expected credit losses using the probability of default rate specific to industry characteristics.

The Company recognizes in the statement of profit and loss and other comprehensive income as a gain or loss on impairment, the amount of expected credit losses (or their recovery) required to adjust the estimated provision for losses as at the reporting date to the amount to be recognized.

Financial liabilities

Recognition and evaluation

The Company's financial liabilities are classified as financial liabilities at amortized cost using the effective interest method.

Accounts payable

Accounts payable are initially measured at fair value and subsequently revalued at amortized cost using effective interest rate method.

Derecognition

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Offsetting

Financial assets and liabilities are only offset and reported at the net amount in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair value of financial instruments

Fair value of financial instruments traded in active markets is determined at each reporting date, based on quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value of financial instruments (continued)

For financial instruments not traded in an active market, fair value is determined using appropriate valuation techniques. Such techniques may include using prices of recent arm's length market transactions, using current fair value of similar instruments; discounted cash flow analysis or other valuation models.

Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using statutory tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences, except where the Company is able to control the recovery of the temporary difference and it is probable that the temporary difference will not recover in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that there is a probability of future tax profit that will be sufficient to utilize the benefits of the temporary differences and they are expected to recover in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced if the probability of future taxable profit sufficient for the full or partial use of these assets is no longer high.

Deferred tax assets and income tax liabilities are measured at tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to be enacted or substantively enacted during the period when the tax asset is realized or the liability is settled.

The measurement of deferred tax liabilities and assets reflects the tax consequences of the Company's intentions as at the reporting date with respect to the manner in which the carrying amount of assets is recovered or the liabilities are settled.

Employee benefits

In accordance with the applicable legislation of the Republic of Kazakhstan the Company withholds 10% of pension contributions from employee salaries, but no more than 212,500 tenge per month for the year ended March 31, 2020 (for the year ended March 31, 2019: 212,500 tenge per month). According to the legislation of the Republic of Kazakhstan, pension contributions are the responsibility of an employee, and the Company does not have any post-retirement benefits or other significant compensated benefits requiring accrual.

Short-term benefits

In determining the amount of the obligation in respect of short-term employee benefits, discounting is not applied, and the related costs are recognized as employees perform their duties.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Short-term benefits (continued)

In respect of the amount expected to be paid under short term plan bonus payments or profit sharing, recognizes an obligation if the Company has a current legal or constructive obligation to pay the corresponding amount, resulting from the exercise by the employee of his or her employment in the past, and the amount of that obligation can be measured reliably.

Revenues from contracts with customers

The Company recognizes revenue when control of the asset (transfer of risks and benefits) is transferred to the buyer. The timing of the transfer of risks and benefits varies depending on the individual terms of the implementation contracts. The transfer of control occurs when the product is shipped from The Company's warehouse or delivered to the buyer's warehouse, depending on the conditions specified in the contracts.

Some contracts with buyers give the right to discounts for their customers under certain conditions. The Company estimates expected discounts and includes them in accounts receivable as a decrease in the sales period. The time periods in which discounts can be applied are quite short, and the Company has the ability to reliably estimate the amount of revenue at the date of the financial statements.

Some contracts with customers imply possible returns. When transferring control over the goods, the Company does not recognize revenue in terms of goods that are expected to be returned.

Events after reporting period

Events occurred after the end of the year, which provide additional information about the position of the Company as at the date of the statement of financial position (adjusting events) are reflected in the financial statements. Events occurred after the end of the year that are not adjusting events are disclosed in notes if they are significant.

Related party transactions

Per IAS 24 Related party disclosure, the Company discloses the nature of the related party relationships as well as information about those transactions and outstanding account balances necessary for an understanding of the potential effect of the relationships on the financial statements.

In these financial statements related parties are those that can control or exercise significant influence over operating and financial decisions of other party. When deciding on whether the parties are related, a substance of the relationship is considered, and not merely its legal form.

Significant accounting judgements and estimates

Preparation of financial statements in accordance with IFRS requires the application of judgments by management of the Company and use of subjective estimates and assumptions that affect recorded amounts of assets and liabilities and disclosure of information about potential assets and liabilities at the reporting date of financial statements and recorded amounts of income and expenses during the reporting period. Even though the estimates are based on historical knowledge and other significant factors, events or actions may arise in such a manner, so actual results may differ from these estimations.

Taxation

Kazakhstan legislative acts and regulations are not always clearly written. Instances of inconsistent opinions between local, regional and national tax authorities are possible. Where additional taxes are imposed by the tax authorities penalties and fines applied are significant; penalties are generally assessed at 50% of the additional taxes accrued, and fines are assessed at the refinancing rate established by the National Bank of Kazakhstan multiplied by 1.25. As a result, penalties and fines can exceed the amount of additional accrued taxes.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Significant accounting judgements and estimates (continued)

Taxation (continued)

Because of the uncertainties disclosed above, the ultimate amount of taxes, penalties and fines imposed, if any, may be in excess of the amount expensed to date and accrued as at March 31, 2020. Any difference between the estimated amount and the actual amount paid, if any, could have a significant impact on Company's income in future periods.

5. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment for the years ended March 31, 2020 and 2019 are presented below:

In thousands of tenge	Furniture and fixtures	Vehicles	Office equipment	**Total**
Cost:				
As at March 31, 2018	**2,406**	**105,980**	**6,247**	**114,633**
Additions	1,574	34,289	869	**36,732**
Disposals	(183)	(4,619)	(70)	**(4,872)**
As at March 31, 2019	**3,797**	**135,650**	**7,046**	**146,493**
Additions	–	23,598	1,212	**24,810**
Disposals	(11)	(2,563)	(998)	**(3,572)**
As at March 31, 2020	**3,786**	**156,685**	**7,260**	**167,731**
Accumulated depreciation:				
As at March 31, 2018	**(884)**	**(68,565)**	**(2,672)**	**(72,121)**
Charge for the year (Note 16)	(517)	(24,873)	(1,128)	**(26,518)**
Depreciation on disposal	91	3,547		**3,638**
As at March 31, 2019	**(1,310)**	**(89,891)**	**(3,800)**	**(95,001)**
Charge for the year (Note 16)	(484)	(21,617)	(1,235)	**(23,336)**
Depreciation on disposal	10	2,563	753	**3,326**
As at March 31, 2020	**(1,784)**	**(108,945)**	**(4,282)**	**(115,011)**
Net book value:				
As at March 31, 2020	**2,002**	**47,740**	**2,978**	**52,720**
As at March 31, 2019	**2,487**	**45,759**	**3,246**	**51,492**

As at March 31, 2020 the cost of fully depreciated but still in use property, plant and equipment was 61,336 thousand tenge (March 31, 2019: 44,114 thousand tenge).

6. INVENTORIES

Inventories as at March 31, 2020 and 2019 are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Goods for sale (pharmaceutical drugs)	**832,764**	489,712
Other inventories	**1,383**	3,409
Less: provision for obsolete and slow-moving inventories	**(12,048)**	(15,199)
	822,099	**477,922**

The movement of provision for obsolete and slow-moving inventories for the years ended March 31, 2020 and 2019 is presented below:

6. INVENTORIES (CONTINUED)

In thousands of tenge	Note	**For the year ended March 31, 2020**	For the year ended March 31, 2019
As at April 1		**15,199**	13,459
(Recovered) / accrued for the year	16	**(3,151)**	1,740
As at March 31		**12,048**	**15,199**

7. ACCOUNTS RECEIVABLE

Accounts receivable as at March 31, 2020 and 2019, are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Trade accounts receivable	**279,910**	304,204
Other accounts receivable	**1,576**	2,934
Less: impairment allowance	**(11,871)**	(16,501)
	269,615	**290,637**

As at March 31, 2020 and 2019, accounts receivable are denominated in tenge.

As at March 31, 2020 and 2019, accounts receivable that were not impaired were as follows:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Neither past due nor impaired	**268,039**	228,302
Past due 1-180 days	**–**	59,401
Past due more than 180 days	**–**	–
	268,039	**287,703**

The movement of impairment allowance for the years ended March 31, 2020 and 2019 is presented below:

In thousands of tenge	Note	**For the year ended March 31, 2020**	For the year ended March 31, 2019
As at April 1		**16,501**	8,101
The effect of the initial application of IFRS 9		**–**	4,517
Recovery of impairment losses		**(1,881)**	(450)
Allowance for doubtful accounts	16	**–**	4,333
Reclassification of allowance for doubtful accounts on advances paid	8	**(2,749)**	–
As at March 31		**11,871**	**16,501**

8. ADVANCES PAID

Advances paid as at March 31, 2020 and 2019, are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Advances paid for services	**14,637**	13,716
Less: allowance for doubtful accounts	**(2,749)**	–
	11,888	**13,716**

The movement of allowance for doubtful accounts for the years ended March 31, 2020 and 2019 is presented below:

In thousands of tenge	Note	**For the year ended March 31, 2020**	For the year ended March 31, 2019
As at April 1		**–**	–
Reclassification of allowance for doubtful accounts on advances paid	7	**2,749**	–
As at March 31		**2,749**	–

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as at March 31, 2020 and 2019 are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Cash in savings accounts	**224,050**	190,058
Cash on current bank accounts	**108,962**	70,318
Cash on hand	**1,720**	891
	334,732	**261,267**
Impairment losses	**(13,914)**	(5,068)
	320,818	**256,199**

The movement in the allowance is as follows:

In thousands of tenge	**March 31, 2020**	March 31, 2019
As at April 1	**5,068**	–
The effect of the initial application of IFRS 9	**–**	6,468
Impairment loss / (recovery of impairment losses)	**8,846**	(1,400)
As at March 31	**13,914**	**5,068**

As at March 31, 2020, cash in savings accounts is represented by cash on a deposit account denominated in US dollars, opened in Tengri Bank JSC with an interest rate of 5% per annum with a maturity of one year.

As at March 31, 2020 and 2019 cash and cash equivalents are denominated in the following currencies:

In thousands of tenge	**March 31, 2020**	March 31, 2019
US dollar	**238,601**	216,088
Tenge	**96,131**	45,179
	334,732	**261,267**

10. CHARTER CAPITAL

Charter capital as at March 31, 2020 and 2019 the is presented as follows:

In thousands of tenge	**March 31, 2020**		March 31, 2019	
	Share	**Amount**	Share	Amount
Alkem Laboratories Ltd.	**100%**	**832,162**	100%	832,162
	100%	**832,162**	100%	**832,162**

There were no changes in the charter capital for the years ended March 31, 2020 and 2019. No dividends were declared or paid for the years ended March 31, 2020 and 2019.

11. ACCOUNTS PAYABLE

Accounts payable as at March 31, 2020 and 2019, are presented below:

In thousands of tenge	Notes	**March 31, 2020**	March 31, 2019
Accounts payable due to related parties	18	**862,203**	413,359
Accounts payable due to third parties		**43,559**	5,418
		905,762	**418,777**

11. ACCOUNTS PAYABLE (CONTINUED)

Amounts of accounts payable as at March 31, 2020 and 2019 were denominated in the following currencies:

In thousands of tenge	**March 31, 2020**	March 31, 2019
US dollars	**862,203**	413,359
Tenge	**43,559**	5,418
	905,762	**418,777**

12. OTHER TAXES PAYABLE

Other taxes payable as at March 31, 2020 and 2019 are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Withholding tax	**3,906**	3,906
Individual income tax	**3,903**	2,329
Social tax	**2,819**	1,753
Social contributions	**498**	174
Other taxes	**446**	425
	11,572	**8,587**

13. PROVISIONS

Provisions as at March 31, 2020 and 2019 are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Provision for unused vacation	**15,403**	15,751
Provision for sales commissions	**8,939**	16,112
Provision for audit services	**6,410**	6,100
Other provision	**5,614**	3,024
	36,366	**40,987**

14. OTHER CURRENT LIABILITIES

Other current liabilities as at March 31, 2020 and 2019 are presented below:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Pension contribution payable	**2,812**	2,353
Salaries payable	**1,522**	17,489
	4,334	**19,842**

15. REVENUE FROM CONTRACTS WITH CUSTOMERS

The revenue from contracts with customers for the years ended March 31, 2020 and 2019 is presented below:

In thousands of tenge	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Revenue from sales of pharmaceutical drugs	**1,336,878**	1,100,658
	1,336,878	**1,100,658**

15. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

For the year ended March 31, 2020 revenue from contracts with customers for 5 major customers amounted to 68% of total revenue (for the year ended March 31, 2019: 4 major customers amounted to 62%). The Company's revenue from contracts with customers is generated on the territory of the Republic of Kazakhstan.

16. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are presented below:

In thousands of tenge	Notes	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Salary and related taxes		**465,927**	456,953
Marketing expenses		**189,541**	139,125
Legal and professional services		**32,245**	18,583
Depreciation of property, plant and equipment	5	**23,336**	26,518
Inventories		**17,183**	14,989
Warehouse expenses		**16,951**	14,755
Transportation expenses		**14,691**	12,142
Fuel		**10,863**	11,697
Business trips		**10,424**	13,416
Communication		**9,608**	10,878
Rent		**8,220**	11,097
Insurance		**7,833**	6,037
Amortization of intangible assets		**76**	5
(Recovery) / accrual of provision for obsolete and slow-moving inventories	6	**(3,151)**	1,740
Allowance for doubtful accounts	7	**–**	4,333
Other expenses		**6,321**	13,409
		810,068	**755,676**

17. CORPORATE INCOME TAX

The Company is subject to payment of corporate income tax at the prevailing statutory rate of 20%. The income tax expenses/benefit are presented below:

In thousands of tenge	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Current corporate income tax expense	**–**	–
Deferred corporate income tax expense / (benefit)	**2,668**	(1,652)
Corporate income tax expense / (benefit)	**2,668**	**(1,652)**

Reconciliation of theoretical corporate income tax expense applicable to profit before income tax at the statutory income tax rate to actual income tax expense is presented below:

In thousands of tenge	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Loss before corporate income tax	**(81,638)**	(100,138)
Statutory tax rate	**20%**	20%
Income tax at statutory rate	**(16,328)**	**(20,028)**
Tax effect of permanent differences		
Non-deductible expenses	**17,288**	5,721
Change in provision for unrecognized deferred income tax asset	**1,708**	12,655
Corporate income tax expense / (benefit)	**2,668**	**(1,652)**

Balances of deferred taxes, calculated by applying the statutory tax rates prevailing at the date of statement of financial position to the temporary differences between tax base of assets and liabilities and the amounts presented in the financial statements include the following as at March 31, 2020 and 2019:

17. CORPORATE INCOME TAX (CONTINUED)

In thousands of tenge	**As at March 31, 2020**	**Charge to statement of profit and loss**	As at March 31, 2019	Charge to statement of profit and loss	As at March 31, 2018
Deferred income tax assets					
Tax loss carried forward	**14,363**	**1,708**	12,655	8,785	3,870
Unused vacation reserve	**3,081**	**(69)**	3,150	424	2,726
Provision for obsolete and slow-moving inventories	**2,410**	**(630)**	3,040	348	2,692
Allowance for doubtful accounts	**2,374**	**(926)**	3,300	1,680	1,620
Property, plant and equipment	**1,661**	**(405)**	2,066	2,713	(647)
Provision for audit services	**1,282**	**62**	1,220	220	1,000
Tax liabilities	**644**	**217**	427	2	425
Provision for sales commission	**1,788**	**(1,434)**	3,222	784	2,438
Other provisions	**1,122**	**517**	605	(649)	1,254
Total deferred income tax assets	**28,725**	**(960)**	**29,685**	**14,307**	**15,378**
Less: allowance for unrecognized tax asset	**(14,363)**	**(1,708)**	(12,655)	(12,655)	–
Net deferred corporate income tax asset	**14,362**	**(2,668)**	**17,030**	**1,652**	**15,378**

18. RELATED PARTY TRANSACTIONS

Related parties include the owners, entities under common control, key management personnel of the Company and entities in which a significant share is directly or indirectly owned by key management personnel and/or the owners of the Company.

Terms and conditions of related party transactions

Transactions with related parties were conducted on terms agreed between the parties, which were not necessarily carried out at market terms. Outstanding balances at year end are unsecured, interest bearing, and payments are made in cash. Such assessment is made at the end of each reporting period by means of examining the financial position of the related party and the market, in which it operates.

Significant related parties' balances and transactions for the year ended March 31, 2020 and 2019 are presented below:

Purchases of goods

In thousands of tenge	**For the year ended March 31, 2020**	For the year ended March 31, 2019
Alkem Laboratories Limited, the Parent	**865,549**	624,237
	865,549	**624,237**

Accounts payable

In thousands of tenge	Notes	**March 31, 2020**	March 31, 2019
Alkem Laboratories Limited, the Parent	11	**862,203**	413,359
		862,203	**413,359**

Compensation to Key Management Personnel

Key management personnel include General Director, Deputy General Director, Commercial Director and the Chief Accountant, a total of 4 people as at March 31, 2020 (as at March 31, 2019: 4 people). For the year ended March 31, 2020, total compensation to key management personnel included in selling, general and administrative expenses of the statement of profit and loss and other comprehensive income amounted to 188,414 thousand tenge (for the year ended March 31, 2019: 174,788 thousand tenge). Compensation to key management personnel consists of salaries and other benefits in accordance with the Company's policy.

19. COMMITMENTS AND CONTINGENCIES

Legal claims

The Company participates in various legal proceedings related to its business activities, such as claims for compensation for property damage. The Company does not believe that potential claims individually or in the aggregate may have any material adverse effect on its financial position or the results of its operations.

The Company estimates the likelihood of material liabilities and reflects the related provision in its financial statements only when it is reasonably probable that the events giving rise to the liability will occur and the amount of the related liability can be reliably determined.

Kazakhstan taxation contingencies

The taxation system in Kazakhstan is relatively new and is characterized by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during five subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

Insurance

The insurance market in Kazakhstan is emerging and many forms of insurance, which are widespread in other countries, are unavailable in Kazakhstan. The Company insures the civil responsibility of the employer, and Company's vehicles in accordance with the requirements of the legislation of the Republic of Kazakhstan. The Company bears the risk of loss with respect to the uninsured or partially insured assets and operations.

Distribution of pharmaceutical drugs

The Company conforms to the legislation of the Republic of Kazakhstan in the field of pharmaceutical drugs distribution and believes that it is in comply with that legislation, therefore, there is no risk of revoking of the license to engage in wholesale of pharmaceutical drugs and of creation of reserve for potential fines.

Investment related agreements

As at March 31, 2020 and 2019, the Company has no investment related agreements.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Company is exposed to various risks associated with financial instruments. Financial assets and liabilities are divided into categories in accordance with the accounting policy of the Company. The main financial instruments of the Company consist of cash and cash equivalents, accounts receivable and accounts payable. Main risks associated with the Company's financial instruments are the risks associated with fluctuations in exchange rates. The Company also manages the liquidity risk arising from financial liabilities.

The Company's risk management is coordinated by the Company's management in close cooperation with the Parent and is focused on providing short-term and medium-term cash flows to the Company to minimize exposure to volatility of the financial markets. The Company is not actively involved in trading operations of financial instruments for speculative purposes. The most significant financial risks the Company might be exposed to are presented below.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

The Company is exposed to currency risk on purchases denominated in currencies other than tenge. These operations are mainly denominated in US dollars. The Company does not hedge its foreign exchange risk. In respect of monetary assets and liabilities denominated in foreign currencies, the Company holds a net exposure within acceptable limits by buying or selling foreign currency at exchange rates "spot" where necessary to address short-term imbalances. As at March 31, 2020 and 2019 the Company has monetary assets and liabilities denominated in foreign currencies.

Below is the effect of the impact of potential changes in exchange rates:

In thousands of tenge	Increase/decrease in US dollar rate	Effect on profit before tax	Effect on Equity
For the year ended March 31, 2020	**+15%**	**(93,540)**	**(93,540)**
	-15%	**93,540**	**93,540**
For the year ended March 31, 2019	+10%	(19,727)	(19,727)
	-10%	19,727	19,727

Liquidity risk

Liquidity risk is the risk that the Company will have difficulties in receiving funds for repayment of obligations related to financial instruments. Liquidity risk may result from inability to sell a financial asset quickly at the price close to its fair value.

The Company regularly monitors the need for liquid funds, and management ensures the availability of funds in the amount sufficient for execution of any upcoming obligations.

The following table presents financial liabilities of the Company as at March 31, 2020 in the context of time left until maturity, based on undiscounted cash flows payable:

In thousands of tenge **March 31, 2020**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Accounts payable	–	905,762	–	–	–	**905,762**
Other current liabilities excluding pension contribution	–	1,522	–	–	–	**1,522**
	–	**907,284**	–	–	–	**907,284**

The following table presents financial liabilities of the Company as at March 31, 2019 in the context of time left until maturity, based on undiscounted cash flows payable:

In thousands of tenge **March 31, 2019**	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	**Total**
Accounts payable	–	418,777	–	–	–	**418,777**
Other current liabilities excluding pension contribution	–	17,489	–	–	–	**17,489**
	–	**436,266**	–	–	–	**436,266**

Credit risk

Credit risk is the risk that one party on financial instrument fails to meet an obligation and will cause the other party to incur financial loss. The Company is exposed to credit risk because of its operating activities and certain investing activities.

20. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk of the industry and country in which customers operate. The Company establishes an allowance for impairment that represents its estimate of expected losses in respect of accounts receivable.

As at March 31, 2020 and 2019 accounts receivable had exposure to only one type of counter party. Customers with ending balance more than 10% of total receivables were as follows:

In thousands of tenge	**March 31, 2020**	March 31, 2019
Amanat LLP	**66,680**	15,452
INKAR	**54,695**	83,875
Emiti International	**24,855**	64,747
Medservice plus Kazakh Pharmaceutical Comp LLC	**34,402**	58,694
MEDIX	**9,442**	7,033
	190,074	**229,801**

The following table represents the amounts in current bank accounts at reporting date using Moody's agency credit ratings:

In thousands of tenge	Location	**March 31, 2020**	March 31, 2019	**March 31, 2020**	March 31, 2019
Tengri Bank JSC	Kazakhstan	**B2/stable**	B2/stable	**246,400**	201,611
SB Sberbank JSC	Kazakhstan	**Ba1/stable**	Ba3/stable	**86,612**	58,765
Impairment losses				**(13,914)**	(5,068)
				319,098	**255,308**

As part of management of credit risk cash of the Company is deposited in Kazakhstani banks with low credit ratings. The Company creates impairment allowance in respect of cash and cash equivalents on banks accounts.

21. CAPITAL MANAGEMENT

Capital includes charter capital and accumulated loss. The main objective of the Company's capital management is to ensure stable credit rating and adequate level of capital to support the business of the Company and maximization of shareholders' value.

The Company manages its capital in order to continue to adhere to the principle of going concern together with the maximization of profit for stakeholders by optimizing the balance of debt and equity.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

Fair value is determined as the amount at which the instrument could be exchanged between knowledgeable parties on a commercial basis, except for situations with forced or liquidation sale. Since there are no significant available market mechanisms to determine fair value, for most of the Company's financial instruments, in assessing fair value, assumptions based on current economic conditions and specific risks inherent to the instruments are used. The Company believes that as at March 31, 2020 and 2019 the present value of cash and cash equivalents, accounts receivable and accounts payable is approximately equal to their fair value.

The Company uses the following hierarchic structure of valuation methods to determine and disclose information about the fair value of financial instruments:

22. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments (continued)

- Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;
- Level 2: valuation models for which all inputs which have significant effect on the recorded in the financial statements fair value are observable in the market, either directly or indirectly;
- Level 3: valuation models which use inputs that have significant effect on the recorded in the financial statements fair value that are not based on observable market data.

In thousands of tenge	Fair value measurement as at 31 March 2020				
	Date of measurement	Level 1	Level 2	Level 3	**Total**
Assets, which fair value is disclosed					
Cash and cash equivalents	31.03.2020	320,818	–	–	**320,818**
Accounts receivable	31.03.2020	–	269,615	–	**269,615**
		320,818	**269,615**	–	**590,433**
Liabilities, which fair value is disclosed					
Accounts payable	31.03.2020	–	905,762		**905,762**
		–	**905,762**		**905,762**
Difference between financial assets and financial liabilities		**320,818**	**(636,147)**		**(315,329)**

In thousands of tenge	Fair value measurement as at 31 March 2019				
	Date of measurement	Level 1	Level 2	Level 3	**Total**
Assets, which fair value is disclosed					
Cash and cash equivalents	31.03.2019	256,199	–	–	**256,199**
Accounts receivable	31.03.2019	–	290,637	–	**290,637**
		256,199	**290,637**	–	**546,836**
Liabilities, which fair value is disclosed					
Accounts payable	31.03.2019	–	(418,777)	–	**(418,777)**
		–	**(418,777)**	–	**(418,777)**
Difference between financial assets and financial liabilities		**256,199**	**(128,140)**	–	**128,059**

There were no transfers between Level 1, 2 and 3 for the years ended March 31, 2020 and 2019.

Management believes that as at March 31, 2020 and 2019, fair value of financial assets and liabilities was approximately equal to their carrying value.

23. EVENTS AFTER REPORTING PERIOD

There were no events after reporting period that could have a significant impact on the financial statements of the Company as at and for the year ended March 31, 2020.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended March 31, 2020 were authorized for issue by management of the Company on April 30, 2020.