Pharmacor Limited

Annual Financial Statements
for the year ended March 31, 2023

General Information

Country of incorporation and domicile	Kenya
Date of incorporation	May 15, 2012
Directors	Mr. Nikhilesh Srivastava
Registered office	Office Suites Building Parklands P.O. Box 1499-00800 Nairobi
Principal banker	Citibank N.A. Kenya Upper Hill Road P.O. Box 30711-00100 Nairobi
Independent auditor	Grant Thornton LLP Certified Public Accountants (Kenya) 5th Floor, Avocado Towers Muthithi Road, Westlands P.O. Box 46986-00100 Nairobi
Company secretary	Dolphins Training and Consultants 10th Floor, View Park Towers Utalii Lane P.O. Box 2211382-00100 Nairobi
Company registration number	CPR/2012/74060
Tax reference number	P051389037L
Ultimate holding company	Alkem Laboraties Limited incorporated in India

Contents

Directors' Report

The directors submit their report together with the audited annual financial statements for the year ended March 31, 2023.

1. Principal activities

The principal activities of the company are distribution of pharmaceutical products within the region. The company operates principally in Kenya.

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

2. Business review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015. The accounting policies have been applied consistently compared to the prior year..

The company recorded a net loss after tax for the year ended March 31, 2023 of Ksh (32,780,555). This represented a decrease of 281.60% from the net profit after tax of the prior year of Ksh 18,051,081.

Company revenue increased by 22.66% from Ksh 248,099,191 in the prior year to Ksh 304,307,760 for the year ended March 31, 2023.

Company cash flows from operating activities decreased by 175.50% from Ksh 67,015,559 in the prior year to Ksh (50,598,204) for the year ended March 31, 2022.

The movement for the above financial results for the year ended March 31, 2023 have been attributed due to the following:

Economic factors

Imports for the company are paid in US Dollars while sales are in Kenya shillings. The company continued to face a negative impact on account of the adverse Ksh to dollar exchange rate due to the falling Ksh rate against the dollars.

Provision of the credit loss allowance, which is an IFRS requirement, however the company is confident of recovering the full debt without any loss.

Principal risks facing the company

- **Legal, regulatory, and compliance risk**
  The company has put in place robust fiduciary systems and standards. The company is also compliant with the Kenyan Government tax regime, Kenyan Companies Act, 2015, and statutory requirements. The company is compliant with the Pharmacy and Poisons Board requirements and has all the required permits.
- **Foreign currency risk**
  The Kenyan Shilling has deteriorated against other major currencies which has raised the cost of imports and have adversely affected the company. The company is adjusting their selling price to help mitigate some of the foreign currency risk by increasing their selling price to the extent feasible.
- **Availability of resources**
  Management continuously assesses the need for resources – technology, human and intellectual. The different functions of the company allow the management to manage resource risk.Regular performance review meetings and on strategizing on the way forward
- **Political and security risk**
  The company continues to monitor the political and security situation within the country and acts as and when required. As of now the company considers political environment as stable.

Other performance indicators

Competitive factors
The company has launched 2 new items in the current year to potentially increase their market share, and is further introducing 4 new items in the following year

Employee factors
The number of employees has more or less remained the same, and the staff costs has increased by 18%, mainly due to increase in their remuneration due to their performance.

Directors' Report

3. Share capital

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

4. Dividends

The directors do not recommend the declaration of a dividend for the year ended March 31, 2023. (2022: Nil).

5. Events after the reporting period

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

6. Statement of disclosure to the company's auditor

With respect to each person who is a director on the day that this report is approved:
- there is, so far as the person is aware, no relevant audit information of which the company's auditor is unaware; and
- the person has taken all the steps that he/she ought to have taken as a director to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

7. Terms of appointment of the auditor

Grant Thornton LLP continues in office in accordance with the company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015. The directors monitor the effectiveness, objectivity and independence of the auditors. The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees.

8. Approval of annual report and financial statements

The annual financial statements set out on pages 8 to 36, which have been prepared on the going concern basis, were approved by the board of directors on May 2, 2023, and were signed on its behalf by:

Nikhilesh Srivastava

Nikhilesh Srivastava
(Director)

Statement of Directors' Responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare annual financial statements for each financial year that give a true and fair view of the financial position of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that are sufficient to show and explain the transactions of the company and disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company, and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 of directors 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 accept responsibility for the preparation and presentation of these annual financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal controls as they determine necessary to enable the presentation of annual financial statements that are free of material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and
- making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the annual financial statements does not relieve them of their responsibilities.

The annual financial statements set out on pages 8 to 36, which have been prepared on the going concern basis, were approved by the director on May 2, 2023 and were signed on his behalf by:

Nikhilesh Srivastava

Mr Nikhilesh Srivastava
(Director)

Independent Auditor's Report

To the Shareholder of Pharmacor Limited

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of Pharmacor Limited set out on pages 8 to 36, which comprise the statement of financial position as at March 31, 2023, 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 annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of Pharmacor Limited as at March 31, 2023, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

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 Annual Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audits of annual financial statements in Kenya. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Kenya. 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 Directors' Report as required by the Kenyan Companies Act, 2015. The other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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 and Those Charged with Governance for the Annual Financial Statements

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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.

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

Grant Thornton

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual 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 annual 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 annual 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 annual financial statements, including the disclosures, and whether the annual 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.

Report on Other Legal and Regulatory Requirements

In our opinion the information given in the report of the directors on page 3 - 4 is consistent with the annual financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Dipesh Shah, Practicing Certificate No. 1729.

Grant Thornton LLP
Certified Public Accountants

For and on behalf of Grant Thornton LLP
Certified Public Accountants (Kenya)
Nairobi

08 MAY 2023

P/141/0323/164/0423/AUD

Statement of Profit or Loss and Other Comprehensive Income

Figures in Shillings	Note(s)	2023	2022
Revenue	3	304,307,760	248,099,191
Cost of sales	4	(133,953,076)	(113,674,864)
Gross profit		**170,354,684**	**134,424,327**
Other operating income	5	-	114,102
Movement in credit loss allowances	17	(32,874,500)	1,731,924
Selling and distribution expenses	6	(54,998,766)	(24,252,949)
Operating expenses	7	(100,694,495)	(82,801,635)
Operating (loss) profit		**(18,213,077)**	**29,215,769**
Finance costs	9	(25,113,701)	(4,157,625)
(Loss) profit before taxation		**(43,326,778)**	**25,058,144**
Taxation	10	10,546,223	(7,007,063)
(Loss) profit for the year		**(32,780,555)**	**18,051,081**
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		**(32,780,555)**	**18,051,081**

The accounting policies on pages 12 to 20 and the notes on pages 21 to 36 form an integral part of the annual financial statements.

Statement of Financial Position as at March 31, 2023

Figures in Shillings	Note(s)	2023	2022
Assets			
Non-Current Assets			
Property, plant and equipment	12	7,070,171	4,532,249
Right-of-use assets	13	1,870,815	4,209,346
Intangible assets	14	-	24,226
Deferred tax	15	12,884,459	2,338,236
		21,825,445	**11,104,057**
Current Assets			
Inventories	16	30,037,275	28,269,068
Trade and other receivables	17	116,538,831	95,188,800
Current tax receivable	11	10,427,841	4,127,841
Cash and cash equivalents	18	30,515,271	86,216,327
		187,519,218	**213,802,036**
Total Assets		**209,344,663**	**224,906,093**
Equity and Liabilities			
Equity			
Share capital	19	100,000	100,000
Retained income		55,376,776	88,157,330
		55,476,776	**88,257,330**
Liabilities			
Non-Current Liabilities			
Lease liabilities	13	-	2,271,876
Current Liabilities			
Trade and other payables	20	152,099,272	132,608,272
Lease liabilities	13	1,768,615	1,768,615
		153,867,887	**134,376,887**
Total Liabilities		**153,867,887**	**136,648,763**
Total Equity and Liabilities		**209,344,663**	**224,906,093**

The annual financial statements and the notes on pages 8 to 36, were approved by the board of directors on May 2, 2023 and were signed on its behalf by:

Mr. Nikhilesh Srivastava
(Director)

The accounting policies on pages 12 to 20 and the notes on pages 21 to 36 form an integral part of the annual financial statements.

Statement of Changes in Equity

Figures in Shillings	Share capital	Retained income	Total equity
Balance at April 1, 2021	**100,000**	**70,106,249**	**70,206,249**
Profit for the year	-	18,051,081	18,051,081
Other comprehensive income	-	-	-
Total comprehensive income for the year	**-**	**18,051,081**	**18,051,081**
Balance at April 1, 2022	**100,000**	**88,157,331**	**88,257,331**
Loss for the year	-	(32,780,555)	(32,780,555)
Other comprehensive income	-	-	-
Total comprehensive Loss for the year	**-**	**(32,780,555)**	**(32,780,555)**
Balance at March 31, 2023	**100,000**	**55,376,776**	**55,476,776**
Note(s)	19		

The accounting policies on pages 12 to 20 and the notes on pages 21 to 36 form an integral part of the annual financial statements.

Statement of Cash Flows

Figures in Shillings	Note(s)	2023	2022
Cash flows (used in) generated from operating activities			
Cash (used in)/generated from operations	22	(19,489,379)	85,790,215
Finance costs	9	(24,808,825)	(3,792,712)
Tax paid	11	(6,300,000)	(14,981,944)
Net cash (used in) generated from operating activities		**(50,598,204)**	**67,015,559**
Cash flows used in investing activities			
Purchase of property, plant and equipment	12	(2,526,100)	(5,992,673)
Net cash used in investing activities		**(2,526,100)**	**(5,992,673)**
Cash flows used in financing activities			
Payment on lease liabilities	13	(2,271,876)	(2,032,065)
Finance costs	9	(304,876)	(364,913)
Net cash used in financing activities		**(2,576,752)**	**(2,396,978)**
Total cash and cash equivalents movement for the year		**(55,701,056)**	**58,625,908**
Cash and cash equivalents at the beginning of the year	18	86,216,327	27,590,419
Total cash and cash equivalents at end of the year	18	**30,515,271**	**86,216,327**

The accounting policies on pages 12 to 20 and the notes on pages 21 to 36 form an integral part of the annual financial statements.

Significant Accounting Policies

1. Significant accounting policies

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

1.1 Basis of preparation

The annual 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 annual financial statements and the Kenyan Companies Act, 2015.

For Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented in these annual financial statements by the Statement of Financial Position and the profit and loss account by the Statement of Profit or Loss and Other Comprehensive Income.

The annual 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 Kenya Shillings, which is the company's functional currency and rounded off to the nearest Shilling.

These accounting policies are consistent with the previous period.

1.2 Significant judgements and sources of estimation uncertainty

The preparation of annual 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

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Expected manner of realisation for deferred tax

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 rises 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).

Key sources of estimation uncertainty

Impairment of financial assets

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, refer to the individual notes addressing financial assets.

Allowance for slow moving, damaged and obsolete inventory

Management assesses whether inventory is impaired by comparing its cost to its estimated net realisable value. Where an impairment is necessary, inventory items are written down to net realisable value. The write down is included in cost of sales.

Significant Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The company reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When such indicators exist, management determine the recoverable amount by performing value in use and fair value calculations. These calculations require the use of estimates and assumptions. When it is not possible to determine the recoverable amount for an individual asset, management assesses the recoverable amount for the cash generating unit to which the asset belongs.

Useful lives of equipment

Management assess the appropriateness of the useful lives of equipment at the end of each reporting period. The useful lives equipment are determined based on company replacement policies for the various assets. Individual assets within these classes, which have a significant carrying amount are assessed separately to consider whether replacement will be necessary outside of normal replacement parameters.

When the estimated useful life of an asset differs from previous estimates, the change is applied prospectively in the determination of the depreciation charge.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use 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	Useful life (years)
Furniture and fixtures	Straight line	10
Motor vehicles	Straight line	5
Office equipment	Straight line	3
IT equipment	Straight line	3

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.

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

Significant Accounting Policies

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.

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

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.

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

Item	Depreciation method	Useful life (years)
Computer software	Straight line	3

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 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);

Financial liabilities:
- Amortised cost;

Note 23 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:

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 17).

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.

1.5 Financial instruments (continued)

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.

Measurement and recognition of expected credit losses

The company makes use of a provision matrix as a practical expedient to the determination of expected credit losses on trade and other receivables. The provision matrix is based on historic credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current and forecast direction of conditions at the reporting date, including the time value of money, where appropriate.

The customer base is widespread and does not show significantly different loss patterns for different customer segments. The loss allowance is calculated on a collective basis for all trade and other receivables in totality. Details of the provision matrix is presented in note 17.

Write off policy

The company writes off a receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the company recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Credit risk

Details of credit risk are included in the trade and other receivables note (note 17) and the financial instruments and risk management note (note 23).

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Borrowings

Classification

Borrowings are classified as financial liabilities subsequently measured at amortised cost.

Recognition and measurement

Borrowings 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 using the effective interest method.

Interest expense, calculated on the effective interest method, is included in profit or loss in finance costs (note 9.)

Borrowings expose the company to liquidity risk and interest rate risk. Refer to note 23 for details of risk exposure and management thereof.

Derecognition

Refer to the derecognition section of the accounting policy for the policies and processes related to derecognition.

Significant Accounting Policies

1.5 Financial instruments (continued)

Cash and cash equivalents

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

Derecognition

Financial assets

The company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the company retains substantially all the risks and rewards of ownership of a transferred financial asset, the company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The company derecognises financial liabilities when, and only when, the company obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Reclassification

Financial assets

The company only reclassifies affected financial assets if there is a change in the business model for managing financial assets. If a reclassification is necessary, it is applied prospectively from the reclassification date. Any previously stated gains, losses or interest are not restated.

The reclassification date is the beginning of the first reporting period following the change in business model which necessitates a reclassification.

Financial liabilities

Financial liabilities are not reclassified.

1.6 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).

1.6 Tax (continued)

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.

1.7 Leases

The company assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the company has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Company as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the company is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the company recognises the lease payments as an operating expense (note 7) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The various lease and non-lease components of contracts containing leases are accounted for separately, with consideration being allocated to each lease component on the basis of the relative stand-alone prices of the lease components and the aggregate stand-alone price of the non-lease components (where non-lease components exist).

However as an exception to the preceding paragraph, the company has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the company is a lessee are presented in note 13 Leases (company as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the company uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;

1.7 Leases (continued)

- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the company under residual value guarantees;
- the exercise price of purchase options, if the company is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line item on the Statement of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in finance costs (note 9).

The company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the company will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Right-of-use assets

Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the company incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are presented in the following table:

Item	Depreciation method	Average useful life
Buildings	Straight line	5 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 a right-of-use asset with a cost that is significant in relation to the total cost of the asset 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.

1.8 Inventories

Inventories are measured at the lower of cost and net realisable value on the moving weighted average basis.

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.

1.9 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.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

The company and its employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are etermined by local stature and the company's contributions are charged to the Statement of Profit or Loss and Other Comprehensive Income in the year they fall due.

1.11 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

1.11 Provisions and contingencies (continued)

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 27.

1.12 Revenue from contracts with customers

The company recognises revenue from distribution of pharmaceutical products.

Revenue is recognised to the extent that the company has transferred the significant risks and rewards of ownership of goods to the buyer under an agreement provided the amount of revenue can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the company. Revenue is measured at the fair value of the consideration received or receivable, excluding VAT and discounts.

Distribution of pharmaceutical products

For sales of pharmaceutical products to the customers, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location. Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the company when the goods are delivered to the customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

1.13 Other income

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

1.14 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Shillings, 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.

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 annual 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 Shillings by applying to the foreign currency amount the exchange rate between the Shillings and the foreign currency at the date of the cash flow.

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:

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 1

A subsidiary that uses the cumulative translation differences exemption, may elect in its financial statements, to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2023 annual financial statements.

The impact of the amendment is not material.

Annual Improvement to IFRS Standards 2018-2020: Amendments to IFRS 9

The amendment concerns fees in the '10 per cent' test for derecognition of financial liabilities. Accordingly, in determining the relevant fees, only fees paid or received between the borrower and the lender are to be included.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2023 annual financial statements.

The impact of the amendment is not material.

Property, Plant and Equipment: Proceeds before Intended Use: Amendments to IAS 16

The amendment relates to examples of items which are included in the cost of an item of property, plant and equipment. Prior to the amendment, the costs of testing whether the asset is functioning properly were included in the cost of the asset after deducting the net proceeds of selling any items which were produced during the test phase. The amendment now requires that any such proceeds and the cost of those items must be included in profit or loss in accordance with the related standards. Disclosure of such amounts in now specifically required.

The effective date of the company is for years beginning on or after January 1, 2022.

The company has adopted the amendment for the first time in the 2023 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after April 1, 2023 or later periods:

Lease liability in a sale and leaseback

The amendment requires that a seller-lessee in a sale and leaseback transaction, shall determine 'lease payments' or 'revised lease payments' in a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use retained by the seller-lessee.

The effective date of the amendment is for years beginning on or after January 1, 2024.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

2. New Standards and Interpretations (continued)

Deferred tax related to assets and liabilities arising from a single transaction - Amendments to IAS 12

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the annual financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

Definition of accounting estimates: Amendments to IAS 8

The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in annual financial statements that are subject to measurement uncertainty."

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

Classification of Liabilities as Current or Non-Current - Amendment to IAS 1

The amendment changes the requirements to classify a liability as current or non-current. If an entity has the right at the end of the reporting period, to defer settlement of a liability for at least twelve months after the reporting period, then the liability is classified as non-current.

If this right is subject to conditions imposed on the entity, then the right only exists, if, at the end of the reporting period, the entity has complied with those conditions.

In addition, the classification is not affected by the likelihood that the entity will exercise its right to defer settlement. Therefore, if the right exists, the liability is classified as non-current even if management intends or expects to settle the liability within twelve months of the reporting period. Additional disclosures would be required in such circumstances.

The effective date of the amendment is for years beginning on or after January 1, 2023.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

IFRS 17 Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after January 1, 2023.

It is unlikely that the standard will have a material impact on the company's annual financial statements.

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022
3. Revenue		
Sale of pharmaceutical products	304,307,760	248,099,191
4. Cost of sales		
Sale of goods	124,561,764	102,230,892
Direct costs	9,391,312	11,443,972
	133,953,076	**113,674,864**
Sale of goods		
Purchases	126,329,971	99,528,846
Opening stock	28,269,068	30,971,114
Closing stock	(30,037,275)	(28,269,068)
	124,561,764	**102,230,892**
Direct costs		
Custom charges	9,010,252	10,804,505
Transport charges	381,060	639,467
	9,391,312	**11,443,972**
5. Other operating income		
Rental income	-	114,102
6. Selling and distribution expenses		
Sales and marketing expenses	54,998,766	24,252,949
7. Operating expenses		
Staff costs (Note 8)	54,571,683	46,061,859
Directors remuneration	24,690,536	21,545,673
Regulatory and compliance expense	7,411,428	4,848,394
Terminal handling charges	3,885,920	1,670,119
Consulting and professional fees	3,085,890	2,830,400
Depreciation on right-of-use assets	2,338,531	1,403,118
Repairs and maintenance	998,709	273,340
Fines and penalties	919,126	-
Auditors' remuneration	870,580	979,066
Rent and rates	670,293	383,517
Bank charges	348,643	269,285
Permits and licences	247,320	180,218
Electricity expenses	125,000	30,000
Postage and courier expenses	120,425	50,153
Internet expenses	116,866	20,688
Local conveyance	79,960	108,065
Printing and stationery	61,021	47,677
Marketing expenses	30,000	20,000
Amortisation on computer software	24,226	6,057
Administrative expenses	96,160	115,750
Secretarial fees	14,000	72,900
Depreciation and amortisation on property and equipment	(11,822)	1,885,356
	100,694,495	**82,801,635**

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

8. Staff costs

Employee costs		
Salaries and wages	76,933,192	66,254,802
Staff welfare	681,886	331,619
Staff medical	889,141	732,911
NSSF company contribution	133,800	88,200
Work permits	624,200	200,000
	79,262,219	**67,607,532**

Average number of persons employed during the year		
Administration	4	4
Management	1	1
Medical representatives	35	35
	40	**40**

9. Finance costs

Net foreign exchange losses	24,808,825	3,792,712
Interest on lease liability	304,876	364,913
	25,113,701	**4,157,625**

Net foreign exchange losses		
Realised exchange losses	14,113,363	357,644
Unrealised exchange losses	10,695,462	3,435,068
	24,808,825	**3,792,712**

10. Taxation

Major components of the tax expense (income)

Current		
Local income tax - current period	-	7,598,339
Deferred		
Local deferred tax- current year	(10,546,223)	(591,276)
	(10,546,223)	**7,007,063**

Reconciliation of the tax expense

Reconciliation between accounting (loss)/profit and tax expense.

Accounting (loss) profit	(43,326,778)	25,058,144
Tax at the applicable tax rate of 30% (2022: 30%)	(12,998,033)	7,517,443
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	2,451,810	(510,380)
	(10,546,223)	**7,007,063**

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

11. Tax payable

	2023	2022
Balance at beginning of the year	4,127,841	(3,255,764)
Current tax for the year recognised in profit or loss	-	(7,598,339)
Balance at end of the year	(10,427,841)	(4,127,841)
	(6,300,000)	**(14,981,944)**

12. Property, plant and equipment

	2023			2022		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Furniture and fixtures	166,950	(15,165)	151,785	140,850	(14,085)	126,765
Motor vehicles	8,300,000	(1,413,370)	6,886,630	5,800,000	(1,740,000)	4,060,000
Office equipment	72,513	(40,757)	31,756	72,513	(13,740)	58,773
IT equipment	709,242	(709,242)	-	709,242	(422,531)	286,711
Total	**9,248,705**	**(2,178,534)**	**7,070,171**	**6,722,605**	**(2,190,356)**	**4,532,249**

Reconciliation of property and equipment - 2022

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	126,765	26,100	(1,080)	151,785
Motor vehicles	4,060,000	2,500,000	326,630	6,886,630
Office equipment	58,773	-	(27,017)	31,756
IT equipment	286,711	-	(286,711)	-
	4,532,249	**2,526,100**	**11,822**	**7,070,171**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	-	140,850	(14,085)	126,765
Motor vehicles	-	5,800,000	(1,740,000)	4,060,000
Office equipment	15,345	51,823	(8,395)	58,773
IT equipment	409,587	-	(122,876)	286,711
	424,932	**5,992,673**	**(1,885,356)**	**4,532,249**

13. Leases (company as lessee)

The company leases its office building from Forestview Limited. The average lease term is 5 years (2022: 5 years).

Details pertaining to leasing arrangements, where the company is lessee are presented below:

Net carrying amounts of right-of-use assets

The carrying amounts of right-of-use assets are included in the following line items:

	2023	2022
Buildings	1,870,815	4,209,346

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

13. Leases (company as lessee) (continued)

Depreciation recognised on right-of-use assets

Depreciation recognised on each class of right-of-use assets, is presented below. It includes depreciation which has been expensed in the total depreciation charge in profit or loss (note 7), as well as depreciation which has been capitalised to the cost of other assets.

	2023	2022
Buildings	2,338,531	1,403,118

Other disclosures

	2023	2022
Interest expense on lease liabilities	304,876	364,913

Lease liabilities

The maturity analysis of lease liabilities is as follows:

	2023	2022
Within one year	1,768,615	1,768,615
Two to five years	-	2,636,789
	1,768,615	4,405,404
Less finance charges component	-	(364,913)
	1,768,615	**4,040,491**
Non-current liabilities	-	2,271,876
Current liabilities	1,768,615	1,768,615
	1,768,615	**4,040,491**

14. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	46,350	(46,350)	-	46,350	(22,124)	24,226

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	24,226	(24,226)	-

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	30,282	(6,056)	24,226

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

15. Deferred tax

Deferred tax asset	12,884,459	2,338,236

Reconciliation of deferred tax asset

At beginning of year	2,338,236	1,746,960
Accelerated capital allowance	(1,353,443)	823,476
Unused tax losses	384,103	-
Provisions	9,314,449	(638,443)
Exchange differences	2,181,118	594,928
Right-of-use asset	701,559	420,935
Lease liabilty	(681,563)	(609,620)
	12,884,459	**2,338,236**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

16. Inventories

Pharmaceutical products	30,037,275	28,269,068

17. Trade and other receivables

Financial instruments:		
Trade receivables	143,193,407	90,234,412
Trade receivables - related parties (Note 21)	-	58,400
Loss allowance	(34,700,835)	(1,826,335)
Trade receivables at amortised cost	108,492,572	88,466,477
Deposits	576,300	576,300
Prepayments	792,823	377,433
Advance payments	2,824,727	3,053,374
Other receivables	3,756,233	2,619,040
Non-financial instruments:		
VAT	96,176	96,176
Total trade and other receivables	**116,538,831**	**95,188,800**

Categorisation of trade and other receivables

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

At amortised cost	116,442,655	95,092,624
Non-financial instruments	96,176	96,176
	116,538,831	**95,188,800**

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.

17. Trade and other receivables (continued)

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

The average credit period on trade receivables is 90 days (2022: 90 days) . No interest is charged on outstanding trade receivables.

A loss allowance is recognised for all trade receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Trade receivables which have been written off are not subject to enforcement activities.

The company measures the loss allowance for trade receivables by applying the simplified approach which is prescribed by IFRS 9. In accordance with this approach, the loss allowance on trade receivables is determined as the lifetime expected credit losses on trade receivables. These lifetime expected credit losses are estimated using a provision matrix, which is presented below. The provision matrix has been developed by making use of past default experience of debtors but also incorporates forward looking information and general economic conditions of the industry as at the reporting date.

The estimation techniques explained have been applied for the first time in the current financial period, as a result of the adoption of IFRS 9. Trade receivables were previously impaired only when there was objective evidence that the asset was impaired. The impairment was calculated as the difference between the carrying amount and the present value of the expected future cash flows.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period.

The company's historical credit loss experience does not show significantly different loss patterns for different customer segments. The provision for credit losses is therefore based on past due status without disaggregating into further risk profiles. The loss allowance provision is determined as follows:

	2023	2023	2022	2022
Expected credit loss rate:	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)	Estimated gross carrying amount at default	Loss allowance (Lifetime expected credit loss)
Not past due: 2.53% (2022: 1.4%)	100,974,666	1,423,678	(210,021)	(2,943)
Less than 30 days past due: 3.78% (2022: 1.4%)	9,069,304	127,797	78,867,667	1,104,980
31 - 60 days past due: 12.71% (2022: 6.27%)	84	7	11,641,270	730,402
91 - 120 days past due: 100% (2022:100%)	-	-	(6,104)	(6,104)
More than 120 days past due:100% (2022:100%)	33,149,352	33,149,353	-	-
Total	**143,193,406**	**34,700,835**	**90,292,812**	**1,826,335**

Reconciliation of loss allowances

The following table shows the movement in the loss allowance (lifetime expected credit losses) for trade and other receivables:

	2023	2022
Opening balance in accordance with IFRS 9	**1,826,335**	**3,558,259**
Provision raised on new trade receivables	32,874,500	(1,731,924)
Closing balance	**34,700,835**	**1,826,335**

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

17. Trade and other receivables (continued)

Exposure to currency risk

Refer to note 23 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.

18. Cash and cash equivalents

Cash and cash equivalents consist of:

	2023	2022
Cash on hand	801,499	92,154
Bank balances	29,713,772	86,124,173
	30,515,271	**86,216,327**

Exposure to currency risk

Refer to note 23 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

19. Share capital

	2023	2022
Authorised		
1,000 Ordinary shares of Ksh 100 each	100,000	100,000
Issued		
1,000 Ordinary shares of Ksh 100 each	100,000	100,000

All issued shares are fully paid.

20. Trade and other payables

	2023	2022
Financial instruments:		
Trade payables	3,710,161	2,065,045
Trade payables - related parties (Note 21)	143,396,485	125,914,987
Directors current account	692,497	143,011
Rent deposits received	-	38,035
Other payables	4,300,129	4,447,194
	152,099,272	**132,608,272**

Exposure to currency risk

Refer to note 23 Financial instruments and financial risk management for details of currency risk management for trade payables.

Exposure to liquidity risk

Refer to note 23 Financial instruments and financial risk management for details of liquidity risk exposure and management.

Notes to the Annual Financial Statements

Figures in Shillings	2023	2022

21. Related parties

Relationships		
Ultimate holding company	Alkem Laboraties Limited	

Related party balances

	2023	2022
Security deposits - related parties		
Alkem Laboratories Limited	-	38,035
Trade payable - related parties		
Alkem Laboratories Limited	143,396,485	125,914,987

Related party transactions

	2023	2022
Purchases from related parties		
Alkem Laboratories Limited India	126,329,971	100,498,707
Payments made to related parties		
Alkem Laboratories Limited	19,200,901	68,803,128
Rental income from related parties		
Alkem Laboratories Limited	-	114,102
Compensation to directors and other key management		
Short-term employee benefits	24,690,536	21,545,673

Pharmacor Limited is related to the above companies by virtue of common control and directorship.

22. Cash (used in)/generated from operations

	2023	2022
Profit (loss) before taxation	(43,326,778)	25,058,144
Adjustments for:		
Depreciation and amortisation	2,350,935	3,294,531
Finance costs	25,113,701	4,157,625
Net impairments and movements in credit loss allowances	32,874,500	(1,731,924)
Changes in working capital:		
Inventories	(1,768,207)	2,702,046
Trade and other receivables	(54,224,531)	(14,672,106)
Trade and other payables	19,491,001	66,981,899
	(19,489,379)	**85,790,215**

23. Financial instruments and risk management

Categories of financial instruments

Categories of financial assets

2023

	Note(s)	Amortised cost	Total	Fair value
Trade and other receivables	17	116,442,655	116,442,655	116,442,655
Cash and cash equivalents	18	30,515,271	30,515,271	30,515,271
		146,957,926	**146,957,926**	**146,957,926**

Figures in Shillings	2023	2022

23. Financial instruments and risk management (continued)

2022

	Note(s)	Amortised cost	Total	Fair value
Trade and other receivables	17	95,092,624	95,092,624	95,092,624
Cash and cash equivalents	18	86,216,327	86,216,327	86,216,327
		181,308,951	**181,308,951**	**181,308,951**

Categories of financial liabilities

2023

	Note(s)	Amortised cost	Leases	Total	Fair value
Trade and other payables	20	152,099,272	-	152,099,272	109,962,240
Lease liabilites	13	-	1,768,615	1,768,615	1,768,615
		152,099,272	**1,768,615**	**153,867,887**	**111,730,855**

2022

	Note(s)	Amortised cost	Leases	Total	Fair value
Trade and other payables	20	132,608,273	-	132,608,273	132,608,273
Lease liabilites	13	-	4,040,491	4,040,491	4,040,491
		132,608,273	**4,040,491**	**136,648,764**	**136,648,764**

Capital risk management

The company's objective when managing capital (which includes share capital, borrowings, working capital and cash and cash equivalents) is to maintain a flexible capital structure that reduces the cost of capital to an acceptable level of risk and to safeguard the company's ability to continue as a going concern while taking advantage of strategic opportunities in order to maximise stakeholder returns sustainably.

The company manages capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, repurchase shares currently issued, issue new shares, issue new debt, issue new debt to replace existing debt with different characteristics and/or sell assets to reduce debt.

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).

The board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The board has established the risk committee, which is responsible for developing and monitoring the company's risk management policies. The management reports quarterly to board of directors on its activities.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the company's activities.

23. Financial instruments and risk management (continued)

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.

The company is exposed to credit risk on trade and other receivables.

Credit risk exposure arising on cash and cash equivalents is managed by the group through dealing with well-established financial institutions with high credit ratings.

Credit loss allowances for expected credit losses are recognised for all debt instruments, but excluding those measured at fair value through profit or loss. Credit loss allowances are also recognised for loan commitments and financial guarantee contracts.

In order to calculate credit loss allowances, management determine whether the loss allowances should be calculated on a 12 month or on a lifetime expected credit loss basis. This determination depends on whether there has been a significant increase in the credit risk since initial recognition. If there has been a significant increase in credit risk, then the loss allowance is calculated based on lifetime expected credit losses. If not, then the loss allowance is based on 12 month expected credit losses. This determination is made at the end of each financial period. Thus the basis of the loss allowance for a specific financial asset could change year on year.

Management apply the principle that if a financial asset's credit risk is low at year end, then, by implication, the credit risk has not increased significantly since initial recognition. In all such cases, the loss allowance is based on 12 month expected credit losses. Credit risk is assessed as low if there is a low risk of default (where default is defined as occurring when amounts are 90 days past due). When determining the risk of default, management consider information such as payment history to date, industry in which the customer is employed, period for which the customer has been employed, external credit references etc. In any event, if amounts are 30 days past due, then the credit risk is assumed to have increased significantly since initial recognition. Credit risk is not assessed to be low simply because of the value of collateral associated with a financial instrument. If the instrument would not have a low credit risk in the absence of collateral, then the credit risk is not considered low when taking the collateral into account. Trade receivable and contract assets which do not contain a significant financing component are the exceptions and are discussed below.

Where necessary, the assessment for a significant increase in credit risk is made on a collective basis. Management typically adopt this approach when information relevant to the determination of credit risk is not available on an individual instrument level. Often, the only information available on individual instruments which could indicate an increase in credit risk, is "past due" information. It is typical that more forward-looking information is generally more readily available on a collective basis. Therefore, making the determination on a collective basis, helps to ensure that credit loss allowances are determined on the basis of lifetime expected credit losses before they reach the point of being past due. Forward looking, macro-economic information is applied on a collective basis when it is readily available without undue cost or effort. When loss allowances are determined on a collective basis, management determines the loss allowances by grouping financial instruments on the basis of shared credit risk characteristics.

For trade receivables and contract assets which do not contain a significant financing component, the loss allowance is determined as the lifetime expected credit losses of the instruments. For all other trade receivables, contract assets and lease receivables, IFRS 9 permits the determination of the credit loss allowance by either determining whether there was a significant increase in credit risk since initial recognition or by always making use of lifetime expected credit losses. Management have chosen as an accounting policy, to make use of lifetime expected credit losses. Management does therefore not make the annual assessment of whether the credit risk has increased significantly since initial recognition for trade receivables, contract assets or lease receivables.

23. Financial instruments and risk management (continued)

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

		2023			2022		
		Gross carrying amount	Credit loss allowance	Amortised cost / fair value	Gross carrying amount	Credit loss allowance	Amortised cost / fair value
Trade and other receivables	17	151,143,490	(34,700,835)	116,442,655	96,918,959	(1,826,335)	95,092,624
Cash and cash equivalents	18	30,515,271	-	30,515,271	86,216,327	-	86,216,327
		181,658,761	**(34,700,835)**	**146,957,926**	**183,135,286**	**(1,826,335)**	**181,308,951**

Amounts are presented at amortised cost or fair value depending on the accounting treatment of the item presented. The gross carrying amount for debt instruments at fair value through other comprehensive income is equal to the fair value because the credit loss allowance does not reduce the carrying amount. The credit loss allowance is only shown for disclosure purposes. Debt instruments at fair value through profit or loss do not include a loss allowance. The fair value is therefore equal to the gross carrying amount.

Refer to the notes specific to the exposures in the table above, for additional information concerning credit risk.

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, capital expenditure and cash flows. The financing requirements are met through a mixture of cash generated from operations and long and short term borrowings. Committed borrowing facilities are available for meeting liquidity requirements and deposits are held at central banking institutions.

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

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.

2023

		Less than 1 year	2 to 5 years	Total	Carrying amount
Current liabilities					
Trade and other payables	20	109,962,240	-	109,962,240	152,099,272
Lease liabilities	13	1,768,615	-	1,768,615	1,768,615

23. Financial instruments and risk management (continued)

2022

		Less than 1 year	2 to 5 years	Total	Carrying amount
Non-current liabilities					
Lease liabilities	13	-	2,271,876	2,271,876	2,271,876
Current liabilities					
Trade and other payables	20	132,608,273	-	132,608,273	132,608,273
Lease liabilities	13	1,768,615	-	1,768,615	1,768,615
		134,376,888	**2,271,876**	**136,648,764**	**136,648,764**

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 utilising foreign forward exchange contracts where necessary. The foreign currencies in which the company deals primarily are US Dollars.

The company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

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

Exposure in Shillings

The net carrying amounts, in Shillings, of the various exposures, are denominated in the following currencies. The amounts have been presented in Shillings by converting the foreign currency amounts at the closing rate at the reporting date of 132.35 per dollar:
US Dollar exposure:

		2023	2022
Current assets:			
Cash and cash equivalents	18	3,366,888	3,009,704
Current liabilities:			
Trade and other payables	20	(143,391,332)	(86,352,382)
Net US Dollar exposure		**(140,024,444)**	**(83,342,678)**

Exchange rates

	2023	2022
Shillings per unit of foreign currency:		
US Dollar	132.350	114.950

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.

23. Financial instruments and risk management (continued)

Company

At March 31, 2023, if the Ksh/dollar exchange rate had been 10.000% (2022: 10.000%) higher or lower during the period, with all other variables held constant, profit or loss for the year would have been Ksh 14,002,444 (2022: Ksh 8,334,268) higher and Ksh 14,002,444 (2022: Ksh 8,334,268) lower.

Interest rate risk

Fluctuations in interest rates impact on the value of investments and financing activities, giving rise to interest rate risk.

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

Interest rate sensitivity analysis

The following sensitivity analysis has been prepared using a sensitivity rate which is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All other variables remain constant. The sensitivity analysis includes only financial instruments exposed to interest rate risk which were recognised 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 March 31, 2023, if the interest rate (LIBOR) had been 2.000% per annum (2022: 2.000%) higher or lower during the period, with all other variables held constant, profit or loss for the year would have been Ksh 6,098 (2022: Ksh 7,298) lower and Ksh 6,098 (2022: Ksh 7,298) higher.

24. Changes in liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities - 2023

	Opening balance	Cash flows	Closing balance
Lease liabilities	4,040,491	(2,271,876)	1,768,615
	4,040,491	**(2,271,876)**	**1,768,615**
Total liabilities from financing activities	**4,040,491**	**(2,271,876)**	**1,768,615**

Reconciliation of liabilities arising from financing activities - 2022

	Opening balance	Cash flows	Closing balance
Lease liabilities	6,072,556	(2,032,065)	4,040,491
	6,072,556	**(2,032,065)**	**4,040,491**
Total liabilities from financing activities	**6,072,556**	**(2,032,065)**	**4,040,491**

25. Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

26. Commitments

There were no commitments during the year ended March 31, 2023.

27. Contingencies

There were no contingencies during the year ended March 31, 2023.

Notes to the Annual Financial Statements

28. Events after the reporting period

The directors are not aware of any material events after the reporting period up to the date of the director's report.