SUN PHARMA EAST AFRICA LIMITED

REPORT AND FINANCIAL STATEMENTS

31 MARCH 2018

PATEL SHAH JOSHI & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

SUN PHARMA EAST AFRICA LIMITED

REPORT AND FINANCIAL STATEMENTS - 31 MARCH 2018

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SUN PHARMA EAST AFRICA LIMITED

DIRECTORS AND OTHER PARTICULARS - 31 MARCH 2018

DIRECTORS	Thomas Kurusinkal Antony Rajesh Khushalchand Shah
REGISTERED OFFICE	Plot No. L R 209/13257/1 3rd Floor, Centre Point Parklands Road P O Box 41684 - 00100 NAIROBI
PRINCIPAL PLACE OF BUSINESS	Plot No. L R 209/20162 M02, Mezzanine Floor, Park Place 2nd Avenue Parklands P O Box 66180 - 00800 NAIROBI
SECRETARY	Richard Maina Kamami Certified Public Secretary (Kenya) P O Box 4475 - 00200 NAIROBI
INDEPENDENT AUDITORS	Patel Shah Joshi & Associates Certified Public Accountants P O Box 41684 - 00100 NAIROBI
BANKER	Diamond Trust Bank Kenya Limited Cross Road Branch P O Box 28575 - 00100 NAIROBI

SUN PHARMA EAST AFRICA LIMITED

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report together with the audited financial statements of the company for the year ended 31 March 2018.

PRINCIPAL ACTIVITY

The main activity of the company is dealing in human pharmaceuticals - import, marketing and whole-sale distribution.

RESULTS AND DIVIDENDS

The loss for the year amounting to K Sh 83,055,759 (2017: K Sh 26,991,331) has been adjusted to the revenue reserves.

The directors do not recommend the payment of any dividend during the year under review.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 1. All the present directors continue in office in the ensuing year.

STATEMENT AS TO DISCLOSURES TO THE COMPANY'S AUDITOR

The directors in office at the date of this report confirm that, to the best of their knowledge and belief,

a) all the relevant audit information was availed to the Company's auditor; and

b) they took all the steps required to be taken so as to be aware of any relevant audit information and to establish that the Company's auditor is availed with such information.

INDEPENDENT AUDITORS

Messrs Patel Shah Joshi & Associates are eligible for re-appointment as independent auditors in accordance with Section 717 (2) of the Companies Act, 2015.

ON BEHALF OF THE BOARD

DIRECTOR

Date: _______________

SUN PHARMA EAST AFRICA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2018

The Kenyan Companies Act, 2015 requires the directors to prepare 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 and loss for the year. It also requires the directors to ensure that the company keeps proper accounting records that:

a) show and explain the transactions of the company;

b) disclose, with reasonable accuracy, the financial position of the company; and

c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

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

i) design, implementing and maintaining such internal controls as they determine necessary to enable the presentation of the financial statements that are free from material misstatements, whether due to fraud or error;

ii) selecting suitable accounting policies and applying them consistently.

iii) making accounting estimates and judgments 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 financial statements does not relieve them of their responsibilities.

Approved by the board of directors on…………………………………………..2018 and signed on its behalf by:

____________________ ____________________

Director **Director**

Date: _______________

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SUN PHARMA EAST AFRICA LIMITED

Opinion

We have audited the accompanying financial statements of Sun Pharma East Africa Limited set out on pages 6 to 18. These financial statements comprise the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as at 31 March 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya. We have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility for 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 scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SUN PHARMA EAST AFRICA LIMITED

Auditor's responsibility for the financial statements (continued)

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

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

We communicate with those charged with governance 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 requirements

In our opinion the information given in the report of the directors on page 2 is consistent with the financial statements.

As required by the Kenyan Companies Act, 2015 we report to you, based on our audit, that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

iii) the company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report was **CPA K V S K Sastry**, Practising Certificate No. P1228.

Patel Shah Joshi & Associates
Certified Public Accountants

Nairobi
…………………..2018

SUN PHARMA EAST AFRICA LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 K Sh	2017 K Sh
Turnover		564,783,550	599,972,965
Cost of sales		(542,560,716)	(465,756,717)
Gross profit		**22,222,834**	**134,216,248**
Interest Income		-	47,049
Net foreign exchange fluctuations		11,826,555	(12,426,553)
Administration costs		(64,187,212)	(67,414,425)
Marketing expenses		(85,686,741)	(88,310,755)
Other operating costs		(1,005,848)	(1,339,497)
Operating loss	**3**	(116,830,412)	(35,227,933)
Finance cost	**4**	(995,765)	(2,545,300)
Loss before tax		(117,826,177)	(37,773,233)
Tax	**5**	34,770,418	10,781,901
Net loss after tax		(83,055,759)	(26,991,331)
Other comprehensive income		-	-
Total comprehensive loss for the year transferred to statement of changes in equity		**(83,055,759)**	**(26,991,331)**

Report of the independent auditors - page 4 & 5
The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements.

SUN PHARMA EAST AFRICA LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

ASSETS	Notes	2018 K Sh	2017 K Sh
Non-current assets			
Furniture, equipment & vehicles	**6**	3,051,875	4,057,723
Intangible assets	**7**	126,832	190,249
Deferred tax asset	**8**	67,350,696	32,580,278
		70,529,403	36,828,250
Current assets			
Inventories	**9**	222,814,431	380,029,444
Trade and other receivables	**10**	216,374,946	221,142,495
Cash and cash equivalents	**11**	47,774,643	22,322,859
Tax recoverable		4,118	-
		486,968,138	623,494,798
Total assets		**557,497,541**	**660,323,048**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	**12**	100,000	100,000
Revenue deficit		(164,165,249)	(81,109,490)
		(164,065,249)	(81,009,490)
Non-current liabilities			
Borrowings	**13**	48,340,932	47,345,167
Current liabilities			
Trade and other payables	**14**	673,221,858	693,980,548
Tax payable		-	6,823
		673,221,858	693,987,371
Total equity and liabilities		**557,497,541**	**660,323,048**

Report of the independent auditors - page 4 & 5
The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on ……..………...2018 and signed on its behalf by:-

DIRECTOR **DIRECTOR**

SUN PHARMA EAST AFRICA LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

	Share capital K Sh	Revenue reserve K Sh	Total K Sh
Balance as at 1 April 2016	100,000	(54,118,159)	(54,018,159)
Total comprehensive loss for the year	-	(26,991,331)	(26,991,331)
Balance as at 31 March 2017	**100,000**	**(81,109,490)**	**(81,009,490)**
Total comprehensive loss for the year	**-**	(83,055,759)	(83,055,759)
Balance as at 31 March 2018	**100,000**	**(164,165,249)**	**(164,065,249)**

Report of the independent auditors - page 4 & 5

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements.

SUN PHARMA EAST AFRICA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 K Sh	2017 K Sh
Operating activities			
Cash generated from operations	**15**	38,213,780	5,795,117
Tax paid		(10,941)	(7,292)
Net cash generated from operating activities		38,202,839	5,787,825
Investing activities			
Purchase of motor vehicles and equipment	**6**	-	(3,105,125)
Net cash used in investing activities		-	(3,105,125)
Increase in cash and cash equivalents		**38,202,839**	**2,682,700**
Movement in cash and cash equivalents			
At start of the year		22,322,859	6,497,182
Increase during the year		38,202,839	2,682,700
Effect of exchange rate fluctuations		(12,751,055)	13,142,976
At end of the year	**11**	**47,774,643**	**22,322,859**

Report of the independent auditors - page 4 & 5

The accounting policies and notes on pages 10 to 18 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:-

a) Accounting convention
The financial statements were prepared in accordance with and comply with International Financial Reporting Standards. They were prepared under the historical cost convention.

b) Depreciation
Depreciation is charged on fixed assets so as to write off their cost over their expected useful lives using the reducing balance method, at the following annual rates:-

Motor vehicles	25 %
Office equipment	12.5 %
Furniture & fittings	12.5 %

c) Intangible assets
The cost of computer software is capitalised on the basis of the total sums incurred by the company to acquire and bring to use the specific software. These costs are amortised over their estimated useful life of five years.

d) Inventories
Inventories are consistently valued by the directors at the lower of cost and net realizable value with due allowance for any obsolete and slow moving items. Cost is determined by the weighted average cost method. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

e) Trade and other receivables
Trade receivables are carried at original invoiced amounts less provision for impairment. A provision for impairment is established when there is objective evidence that the company will not be able to collect the amounts due. Such provisions are recognised in the statement of profit or loss as bad debts in the year in which they are identified.

f) Cash and cash equivalents
Cash and cash equivalents include cash in hand and cash at bank.

g) Borrowings
Borrowings are recognized initially at the proceeds received, net of transaction costs incurred. Any difference between the proceeds received (net of transaction costs) and the redemption value is recognized in the statement of profit or loss over the period of the borrowing as an interest expense. Borrowings are classified as current liabilities unless the company has unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date.

h) Trade and other payables
Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

1. SIGNIFICANT ACCOUNTING POLICIES

i) Foreign exchange flactuations
Assets and liabilities in foreign currency are translated into Kenya shillings at the rate of exchange ruling at the statement of financial position date. Transactions during the year in foreign currency are translated at the rate of exchange ruling at the transaction date. Any exchange fluctuations are dealt with in the statement of profit or loss.

j) Taxation
Tax is provided at the rate of thirty per cent based on the results for the year as adjusted in accordance with the current tax legislation.

k) Deferred tax
Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

l) Revenue recognition
Sales represents invoices raised during the year net of discounts and credit notes and excluding Value Added Tax (VAT).
All other income is recognised on receipt basis.

m) Comparative figures
Comparative figures are adjusted, wherever necessary, to conform to the changes in the presentation for the current year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

2. MEASURES FOR FORTHCOMING YEAR

a) Marketing Strategy

During 2018-19,the company is set to increase geographic reach to Mount Kenya and Nakuru regions that were not covered earlier. In order to broaden the distribution network, the company added 2 more distributors and expects incremental revenues therefrom. Further, the company will make addition of seven new products during the ensuing period thus further improving the revenues.

b) Operational efficiency

The company carried out a goal setting exercise for all divisions. The focus was on market detailing, intensifying the reach to hospitals and doctors and providing useful feedback for management action and follow-up.

c) Staffing

The company added 2 staff members during 2017 and will add 4 more during 2018 to increase geographical coverage. These four marketeers will cover new division in Mount Kenya and Nakuru regions.

d) Cost reduction

During 2018-19, the company will embark on economising major expenses such as rent, administration expenses etc with a view to achieving optimum return for the outlay on such support-related expenditure.

OUTLOOK 2018-19

The Company expects improved performance during 2018-19 and the periods thereafter. The company will leverage the soft credit terms availed by the parent company to ensure constant availability of the entire range of products and will enhance the marketing efficiencies through constant feed-back initiative introduced during the year 2017-18.

SUN PHARMA EAST AFRICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

	2018 K Sh	2017 K Sh
3. OPERATING LOSS		
is stated after charging:		
Amortisation of intangible assets	63,417	63,417
Auditors' remuneration	250,000	250,000
Depreciation	1,005,848	1,339,497
Directors' remuneration	9,773,940	9,335,883
Staff cost - Note 17	60,155,964	69,008,714

4. FINANCE COST

	2018 K Sh	2017 K Sh
Interest on loan	1,920,265	1,828,877
Foreign exchange fluctuations	(924,500)	716,423
	995,765	2,545,300

5. TAX

	2018 K Sh	2017 K Sh
This comprises:		
Current tax	-	14,115
Deferred tax credit - Note 8	(34,770,418)	(10,796,016)
Tax credit	(34,770,418)	(10,781,901)

The tax on the company's loss before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

	2018 K Sh	2017 K Sh
Loss before tax	(117,826,177)	(37,773,233)
Tax calculated at the rate of 30%	(35,347,853)	(11,331,970)
Tax effects of :-		
Expenses not deductible for tax purposes	576,380	548,663
Permanent difference on motor vehicles restriction	1,055	1,406
Tax credit	(34,770,418)	(10,781,901)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

6. FURNITURE, EQUIPMENT AND VEHICLES

	Furniture & Equipment	Office Equipment	Motor Vehicles	Total
	K Sh	K Sh	K Sh	K Sh
COST				
As at 01 April 2017	55,125	26,680	6,075,000	6,156,805
As at 31 March 2018	55,125	26,680	6,075,000	6,156,805
DEPRECIATION				
As at 01 April 2017	6,891	6,253	2,085,938	2,099,082
Charge for the year	6,029	2,553	997,266	1,005,848
As at 31 March 2018	12,920	8,806	3,083,204	3,104,930
CARRYING VALUES				
As at 31 March 2018	42,205	17,874	2,991,797	3,051,875
As at 31 March 2017	48,234	20,427	3,989,062	4,057,723

7. INTANGIBLE ASSETS

	2018	2017
	K Sh	K Sh
At start of year	317,083	317,083
At end of year	317,083	317,083
Amortisation		
At start of year	126,834	63,417
Charge for the year	63,417	63,417
At end of year	190,251	126,834
CARRYING VALUE		
As at 31 March	126,832	190,249

Intangible assets refer to the cost of acquisition of tally accounting software & payroll software.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

8. DEFERRED TAX

	2018 K Sh	2017 K Sh

Deferred taxes are calculated, in full, on all temporary differences under the liability method using an enacted tax rate of 30%. The movement of deferred tax account is as follows:

	2018 K Sh	2017 K Sh
At start of year	(32,580,278)	(21,784,262)
Credit to profit or loss - Note 5	(34,770,418)	(10,796,016)
At end of year	(67,350,696)	(32,580,278)

Deferred tax asset and deferred tax credit in the statement of profit or loss is attributable to the following items:

	01-Apr-17	Credit to P / L	31-Mar-18
Deferred tax asset	**K Sh**	**K Sh**	**K Sh**
Tax losses carried forward	(28,736,659)	(42,436,853)	(71,173,512)
Unrealised exchange differences	(3,843,619)	7,666,435	3,822,816
Net deferred tax asset	(32,580,278)	(34,770,418)	(67,350,696)

9. INVENTORIES

	2018 K Sh	2017 K Sh
Stock-in-trade	194,021,212	365,612,444
Merchandise-in- transit	28,793,219	14,417,001
	222,814,431	380,029,444

10. TRADE AND OTHER RECEIVABLES

	2018 K Sh	2017 K Sh
Trade receivables	207,836,844	213,936,799
Prepayments	1,541,737	988,282
Other receivables	6,996,365	6,217,413
	216,374,946	221,142,495

11. CASH AND CASH EQUIVALENTS

	2018 K Sh	2017 K Sh
Cash in hand	16,380	43,542
Balances at bank	47,758,263	22,279,317
	47,774,643	22,322,859

For the purpose of the statement of cash flows, the year end cash and cash equivalents comprise of the above.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

	2018	2017
12. SHARE CAPITAL	**K Sh**	**K Sh**
Authorized, issued & fully paid-up:		
1,000 Ordinary Shares of K Sh 100 each	100,000	100,000
	======	======

13. BORROWINGS

	2018	2017
Non - current		
Loan from related party - Note 16	48,340,932	47,345,167
	=========	=========

The loan from related party (Sun Pharma Global FZE) carries interest at 4% per annum on outstanding principal amount from 1st April 2015. The loan is unsecured and has no fixed repayment schedule.

14. TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	2,942,068	224,882
Provisions and accruals	3,421,491	10,152,242
Balance due to related party - Note 16	666,858,298	683,603,424
	----------------	----------------
	673,221,858	693,980,548
	==========	==========

15. CASH GENERATED FROM OPERATIONS

Reconciliation of loss before tax to cash generated from operations:

	2018	2017
Loss before tax	(117,826,177)	(37,773,233)
Adjustments for:		
Amortisation of intangible asset	63,417	63,417
Depreciation	1,005,848	1,339,497
Effect of exchange rate fluctuations	11,826,555	(12,426,553)
Interest expense	1,920,265	1,828,877
Changes in working capital:		
Decrease / (increase) in inventories	157,215,013	(232,053,276)
Decrease / (increase) in receivables	4,767,548	(91,873,247)
(Decrease) / increase in payables	(20,758,690)	376,689,636
	---------------	---------------
Cash generated from operations	38,213,780	5,795,117
	=========	=========

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

	2018	2017
16. RELATED PARTY TRANSACTIONS	**K Sh**	**K Sh**

The following arm's length transactions were carried out with parties which are related through common shareholding and / or common directorships.

	2018 K Sh	2017 K Sh
Purchases of goods	361,608,673	646,320,898
Interest charged on loan	1,920,265	1,828,877

The following amounts are due to related parties:

	2018 K Sh	2017 K Sh
Payables to related party - Note 14		
Sun Pharmaceuticals Industries Ltd	666,858,298	683,603,424
Borrowing from related party - Note 13		
Sun Pharma Global FZE	48,340,932	47,345,167

17. STAFF COST

	2018 K Sh	2017 K Sh
Directors' remuneration	9,773,940	9,335,883
Salaries and wages - Administrative	28,970,965	35,902,994
Salaries and wages - Marketing	29,250,763	30,337,925
Staff welfare	1,934,236	2,767,796
	60,155,964	69,008,714

The average number of staff in employment during the year was 52 (2017:51).

18. INCORPORATION AND DOMICILE

The Company is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

19. CURRENCY

These financial statements are presented in Kenya Shillings (K Sh).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2018

20. FINANCIAL RISK MANAGEMENT POLICIES

The company's activities expose it to a variety of financial risks including credit and liquidity risks, effects of changes in foreign currency, interest rates as well as changes in market prices of company's products. The company's overall risk management programme focuses on unpredictability of changes in business environment and seeks to minimize the potential adverse effects of such risks on its performance by setting acceptable levels of risk. The company's financial risk management objectives and policies are detailed below:

a) Capital risk

The company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return through the optimum use of the available resources. The capital structure of the company consists of paid up capital, retained earnings and external borrowings. The company endeavours to maximize the return on each component.

b) Credit risk

The company's credit risk is primarily attributable to trade receivables and trade payables. The company constantly monitors its credit risks on these aspects in line with its overall risk management policies and responds to specific situations within the parameters set. The company does not hedge any risks and has in place policies to ensure that credit is extended to customers with established credit history.

c) Interest rate risk

The interest rate risk exposure arises mainly from interest rate movements on the company's borrowings. Further, the company, from time to time, in order to position itself for expected demand for liquid funds, holds deposits with institutions which also is a subject of interest rate risk. The company manages the risk by a constant contact with the financial markets in order to optimize its revenue and expense and responds to any adverse situations in accordance with the general trends in financial markets.

d) Liquidity risk

The company manages its liquidity risk by intelligent treasury management practices, formulated on the basis of constant assessment of its requirements, present and future and sourcing of funds - internal or external including ploughing back of its own financial resources.

e) Market risk

The company's market risk stems from procurement of its inputs and distribution of its products. The company closely monitors the implementation of its procurement policy, inventory policy as well as credit policy with a view to optimize its market share as well as to respond to external threats. The company regularly reviews its core strengths and seeks to put such strengths to optimum use to maintain its niche in the market - present and future.

SUN PHARMA EAST AFRICA LIMITED

Annex I

DETAILED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 MARCH 2018

	2018 K Sh	2017 K Sh
Turnover	564,783,550	599,972,965
Less: Cost of sales		
Opening stock	380,029,444	147,976,168
Purchases	378,135,508	690,425,950
Product registration fees & regulatory expenses	7,210,195	7,384,044
Closing stock	(222,814,431)	(380,029,444)
Cost of sales	542,560,716	465,756,717
Gross profit	**22,222,834**	**134,216,248**
Foreign exchange fluctuations	11,826,555	(12,426,553)
Interest income	-	47,049
	34,049,389	121,836,744
Less: Expenses		
Administration	64,187,212	67,414,425
Marketing	85,686,741	88,310,755
Finance	995,765	2,545,300
Depreciation	1,005,848	1,339,497
	151,875,566	159,609,976
Loss before tax	**(117,826,177)**	**(37,773,233)**

SUN PHARMA EAST AFRICA LIMITED

Annex II

SCHEDULE OF EXPENSES
FOR THE YEAR ENDED 31 MARCH 2018

	2018	2017
	K Sh	K Sh
ADMINISTRATION		
Accountancy fees	2,369,197	1,701,400
Amortisation charge	63,417	63,417
Audit fees	250,000	250,000
Bank charges	384,457	589,183
Computer expenses	147,694	350,365
Directors' remuneration	9,773,940	9,335,883
Fines & penalties	1,000	-
Immigration & work permit expenses	865,914	1,459,469
Insurance	1,586,415	468,111
License	29,625	39,500
Miscellaneous expenses	74,512	93,978
Motor vehicles running expenses	312,200	176,740
Postage, telephone and internet	1,367,208	1,583,243
Printing & stationery	226,945	467,292
Professional fees	8,638,202	4,942,110
Rent expenses	5,651,552	5,330,843
Salaries and wages	28,970,965	35,902,994
Staff welfare	1,934,236	2,767,796
Subscription	5,000	12,500
Travelling expenses	1,389,033	1,879,601
Training & development	145,700	-
	64,187,212	67,414,425
MARKETING		
Marketing expenses	29,250,763	30,337,925
Salaries and wages	30,736,587	29,724,017
Travelling expenses	25,699,391	28,248,813
	85,686,741	88,310,755
FINANCE COST		
Interest on loan	1,920,265	1,828,877
Foreign exchange fluctuations	(924,500)	716,423
	995,765	2,545,300
DEPRECIATION		
Motor vehicles	997,266	1,329,688
Office equipment	2,553	2,918
Furniture, fittings & equipment	6,029	6,891
	1,005,848	1,339,497