PHARMA DYNAMICS PROPRIETARY LIMITED

AUDITED ANNUAL FINANCIAL STATEMENTS

AT

31 MARCH 2020

(This copy of the Summary Financial Statements is consistent in all respects with the Audited Annual Financial Statements which is dated 25 May 2020, except that the prescribed officers' remuneration disclosure has been excluded)

The summary financial statements have been prepared under the supervision of P C Engelbrecht. Please refer to Pharma Dynamics Proprietary Limited annual financial statements held by the Company Secretary for the prescribed officers' remuneration disclosure

PHARMA DYNAMICS PROPRIETARY LIMITED

ANNUAL FINANCIAL STATEMENTS AT 31 MARCH 2020

DIRECTORS

CF Roos
T J Scott
T R Volle*#
S Makharia*#
S Mumtaz*#
A K Ghosh* #^
Debabrata Chakravorty ^

* Non-executive director
\# Foreign resident
^ On 31 October 2019 A K Ghosh resigned and was replaced by Debabrata Chakrovorty

NATURE OF BUSINESS	Distributors of generic medicines
INCORPORATION	The Company is incorporated in the Republic of South Africa
HOLDING COMPANY	Nanomi B.V. (incorporated in the Netherlands) The holding Company had a name change from Lupin Holdings BV to Nanomi B.V on 1 October 2019
ULTIMATE HOLDING COMPANY	Lupin Ltd (incorporated in India)
REGISTERED OFFICE	1st Floor, Grapevine House Steenberg Office Park Silverwood Close Westlake 7945
POSTAL ADDRESS	P O Box 30958 Tokai 7966
REGISTRATION NUMBER	2001/001124/07
BANKERS	Standard Bank
AUDITORS	Ernst & Young Inc.

The preparation of the annual financial statements was supervised by P C Engelbrecht.

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements set out on pages 3 to 46 were approved by the board of directors on 25 May 2020 and are signed on its behalf by:

C F ROOS **T J SCOTT**

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working world

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Co. Reg. No. 2006/018260/07

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF PHARMA DYNAMICS PROPRIETARY LIMITED

Report on the Audit of the Financial Statements

Opinion

The summary financial statements, which comprise the summary statement of financial position as at 31 March 2020, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of Pharma Dynamics Proprietary Limited for the year ended 31 March 2020.

In our opinion, the accompanying summary financial statements, are consistent, in all material respects with the audited financial statements in accordance with the International Financial Reporting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 46-page document titled "Pharma Dynamics Proprietary Limited Audited Annual Financial Statements at 31 March 2020", which includes the Directors Report and the Company Secretary Statement as required by the Companies Act of South Africa as well as the unaudited supplementary schedules. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the summary 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 summary financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Summary financial statements

The summary financial statements do not contain all the disclosure required for annual financial statements by the Companies Act of South Africa. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 25 May 2020.

Director's responsibility for the summary financial statements

The company's directors are responsible for the preparation of the summary financial statements in accordance with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on whether the summary financial statements are consistent in all material respects with the audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Ernst & Young Inc.
Director: Leigh-Ann Caroline Killin
Cape Town
Registered Auditor
Chartered Accountant (SA)
25 May 2020

PHARMA DYNAMICS PROPRIETARY LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2020

The directors have pleasure in submitting the annual financial statements for the year ended 31 March 2020.

PERFORMANCE HIGHLIGHTS

In spite of global supply challenges, leading to some product supply disruptions Pharma Dynamics still achieved an overall sales growth of 5% over its 2019 performance. API (Active Pharmaceutical Ingredients) shortages arising from China had a negative impact on some products, whilst quality challenges resulted in the withdrawal of one product from the South African market.

As in prior years the market remains very competitive and the low price increase granted towards the end of the 2019 financial made a negligible contribution to the overall revenue growth achieved in 2020. The main driver for the revenue growth was increased product volumes. Volume growth contributed nearly 94% of overall revenue growth. One of the key achievements during the 2020 financial year was the awarding of a BBBEE level 4 certification. Through a lengthy engagement with the Department of Trade and Industry the company was permitted to participate in the EEIP (Equity Equivalence Investment Program) in order to address the ownership element of the scorecard. The cost of this program was the key driver in the reduction of overall profit before tax from R336m to R300m. This represents an overall decrease of just below 11%. Pharma Dynamics remains the 4th largest company, by value, in the overall prescribed generic market in South Africa.

The cardiovascular portfolio continued with its strong performance and Pharma Dynamics has reinforced its position as the largest pharmaceutical company in this therapeutic market with sales of R591m. Pharma Dynamics currently has the two leading antihypertensive brands in South Africa, being Bilocor and Amloc. The OTC (Over the Counter) portfolio has entrenched its position as the 2nd largest product portfolio with sales of R298m, a growth of 25% over the 2019 performance. The CNS (Central Nervous System) portfolio remains the third largest portfolio with sales of R190m.

Sales in the hospital division recorded double digit growth with sales of R100m. This channel remains extremely competitive and we are confident that our BBBEE certification will enable us to remain a key player in this sector in the years to come.

Operating overheads were well managed within budget with overall savings of R5m. Large foreign exchange currency deterioration towards the latter part of March 2020 had a negative impact on overall expense savings. Had this not occurred we would have exceeded the expense savings achieved in 2019.

The Department of Health announced a maximum medicine price increase of 4.53% for 2020/2021. This is slightly higher than the increase of 3,78% awarded for 2019/2020. The 2020/2021 price increase has been implemented on many of our brands after due consideration for competitive market conditions.

The backlog project launched by SAHPRA (South African Health Products Regulatory Authority) towards the end of the 2019 financial year has gained some traction and Pharma Dynamics has been involved in a number of the submission windows. We have not yet seen a large number of new registrations, but have ramped up our internal launch readiness program in preparation for the anticipated registrations. We look forward to seeing the results of this project as it could possibly accelerate revenue growth in years to come.

NATURE OF BUSINESS

The company carries on the business of marketing and sales of pharmaceutical and nutraceutical products. All manufacturing and distribution is contracted out.

RESULTS OF OPERATIONS

The results of operations for the year are detailed in the statement of comprehensive income on page 6 and are to be read in conjunction with the relevant notes.

SHARE CAPITAL

The authorised and issued share capital has remained unchanged.

PHARMA DYNAMICS PROPRIETARY LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2020 (Continued)

PLANT AND EQUIPMENT

There has been no major change in the nature of plant and equipment or in the policy regarding their use.

EMPLOYEES

The company has 165 employees (2019: 164).

DIVIDEND

During the year dividends of R650 000 000 (2019: R50 000 000) amounting to R 6500 per share (2019: R500) were declared and paid.

DIRECTORS AND SECRETARY

Particulars of the present directors are given on page 1.

P C Engelbrecht was appointed as company secretary on 1 March 2018.

EVENTS SUBSEQUENT TO YEAR END

Towards the end of the financial year the impact of the global Coronavirus pandemic hit the shores of South Africa and an official lockdown came into effect at midnight on the 26th of March 2020. Although we have experienced some sporadic short-term supply issues, we have been in constant contact with our product supply partners to ensure security of supply. During our communication they have not indicated that there are any other major events that may impact on our product availability. In spite of the crisis, Pharma Dynamics is well positioned as our core business is built around chronic generic medication, whilst our OTC portfolio (IQVIA March 2020) recorded growth in excess of 43% over the last 12 months. The advent of the Coronavirus was a key contributor to the OTC portfolio growth, resulting in Pharma Dynamics being recognised as the fastest growing company in this sector (IQVIA March 2020). The overall OTC market is only growing at 5,2%. As the Coronavirus is set to become part of our daily lives, we believe this sector will continue to show strong growth in support of the overall Pharma Dynamics business.

Pharmaceutical companies were identified as Essential Services at the commencement of the COVID-19 lockdown, so from an operational and business continuity perspective Pharma Dynamics has not been negatively affected. We have however had to adopt alternative marketing strategies so enable our sales force to interact with Healthcare Professionals. This is being done digitally through the use of platforms already in existence prior to the lockdown. Our manpower requirements have been evaluated and have not changed since the commencement of the lockdown. Due to the fact that we do not have any physical retail presence combined with our ability to continue business operations during the lockdown we have not approached our landlords for any rental relief.

Since January 2020 we have seen a significant deterioration of the Rand against all major currencies. As Pharma Dynamics imports around 95% of its products from its manufacturing partners across the globe, we have evaluated the impact of the increase of our cost of goods for our 2021 financial year. Based on our analysis we anticipate an increase in cost of goods in the region of R77m, should exchange rates remain at current levels. Although this will impact on our overall profitability, we do not see this as a challenge from a going concern perspective. We have also not identified a meaningful increase in or credit risk as all entities we deal with are also classified as Essential Services, and have been able to continue operations during the COVID-19 lockdown. In addition, Pharma Dynamics has adequate resources to carry on business should there be a chance of significant delays in customer payments occurring. We are continuously monitoring overall credit limits and adherence to agreed payment terms.

In addition, the loan of R36 million taken out during the year for funding the dividend payment has been repaid post year end.

AUDITORS

Ernst & Young Inc. will continue in office in accordance with section 90(2) of the Companies Act.

PHARMA DYNAMICS PROPRIETARY LIMITED

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 MARCH 2020 (Continued)

COMPANY SECRETARY STATEMENT FOR THE YEAR ENDED 31 MARCH 2020

I hereby confirm, in terms of the Companies Act, No 71 of 2008, that for the year ended 31 March 2020, the company has lodged with the Companies and Intellectual Property Commission all such returns as are required in terms of this Act and that all such returns are true, correct and up to date.

P C Engelbrecht

25 May 2020

PHARMA DYNAMICS PROPRIETARY LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 R	2019 R
Revenue	2	1 262 221 769	1 200 924 292
Revenue from contracts with customers	2	1 218 835 169	1 160 042 690
Cost of sales		(479 905 196)	(440 509 163)
Gross profit		738 929 973	719 533 527
Other income		1 092 448	5 418 900
Operating costs		(482 468 187)	(430 128 630)
Profit from operations	3	257 554 234	294 823 797
Interest income	2	43 386 600	40 881 602
Interest expense on lease liabilities		(698 291)	-
Interest expense		(2 765)	(79 923)
Profit before taxation		300 239 778	335 625 476
Taxation	4	(83 627 770)	(91 056 503)
Profit for the year		216 612 008	244 568 973
Other comprehensive income		-	-
Total comprehensive income for the year		216 612 008	244 568 973

PHARMA DYNAMICS PROPRIETARY LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2020

	Note	2020 R	2019 R
ASSETS			
Non-current assets			
Property, plant and equipment	5	5 986 904	5 473 470
Intangible assets	7	28 704 186	29 799 124
Investments	8	8 500 000	8 500 000
Deferred tax	9	4 030 254	1 478 747
Right of use asset	6	4 471 917	-
		51 693 261	45 251 341
Current assets			
Inventories	10	195 546 820	164 874 389
Trade and other receivables	11	331 374 010	234 873 223
Tax receivable		5 807 757	4 061 548
Cash and cash equivalents	12	141 435 286	629 011 747
Derivative financial instruments	17	2 141 961	31 788
		676 305 834	1 032 852 695
Total assets		727 999 095	1 078 104 036
EQUITY AND LIABILITIES			
Capital and reserves			
Issued capital	13	100 000	100 000
Accumulated profits		469 514 502	904 749 063
		469 614 502	904 849 063
Non-current liabilities			
Finance lease		-	98 266
Lease liability	14	2 450 050	-
		2 450 050	98 266
Current liabilities			
Dividend withholding tax payable		-	2 500 000
Interest bearing loan and borrowings	19	36 428 299	-
Trade and other payables	15	202 974 075	161 212 944
Lease liability	14	4 106 366	-
Finance lease		-	166 894
Provisions	16	12 425 803	9 276 869
		255 934 543	173 156 707
Total equity and liabilities		727 999 095	1 078 104 036

PHARMA DYNAMICS PROPRIETARY LIMITED

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

	Ordinary share capital R	Accumulated profits R	Total R
Balance at 31 March 2018	100 000	710 180 090	710 280 090
Total comprehensive income for the year	-	244 568 973	244 568 973
Dividends	-	(50 000 000)	(50 000 000)
Balance at 31 March 2019	100 000	904 749 063	904 849 063
IFRS 16 adjustment*	-	(1 846 569)	(1 846 569)
Balance at 31 March 2019 restated	100 000	902 902 494	903 002 494
Total comprehensive income for the year	-	216 612 008	216 612 008
Dividends	-	(650 000 000)	(650 000 000)
Balance at 31 March 2020	100 000	469 514 502	469 614 502

*During the current year the Company adopted IFRS 16 Leases. The value by which the opening retained earnings was adjusted by is R1 846 569.

PHARMA DYNAMICS PROPRIETARY LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020

	Note	2020 R	2019 R
Cash flows from operating activities			
Cash generated from operations	21.1	278 562 397	324 039 362
Movements in working capital	21.2	(95 265 262)	21 300 149
		183 297 135	345 339 511
Interest Income		43 547 437	34 501 818
Interest Paid		(701 056)	(79 923)
Taxation Paid	21.3	(87 207 376)	(96 620 921)
Net cash inflow from operating activities		138 936 140	188 140 485
Cash flows from investing activities			
Purchase of property, plant and equipment		(4 436 933)	(3 948 440)
Purchase of intangible assets		(3 525 185)	(3 615 159)
Proceeds on sale of intangible asset		500 000	2 000 000
Investment		-	(8 500 000)
Net cash outflow from investing activities		(7 462 118)	(14 063 599)
Cash flows from financing activities			
Repayment of lease liability		(5 478 782)	(177 833)
Short term borrowings		36 428 299	-
Dividends Paid		(650 000 000)	(47 500 000)
Net cash outflow from financing activities		(619 050 483)	(47 677 833)
Net movement in cash and cash equivalents		(487 576 461)	221 399 053
Cash and cash equivalents at beginning of year		629 011 747	407 612 694
Cash and cash equivalents at end of year	21.4	141 435 286	629 011 747

1 ACCOUNTING POLICIES

The principal accounting policies applied in the presentation of these financial statements are set out below:

1.1 Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and it's interpretations by the International Accounting Standards Board (IASB) and the requirements of the Companies Act of South Africa.

Basis of preparation

The annual financial statements are prepared on the historical cost basis, except where stated otherwise in the accounting policies below.

The accounting policies below have been applied consistently to all periods presented in the annual financial statements, except where the Company has adopted IFRS and IFRIC interpretations and amendments that became effective during the period. The Company applied IFRS 16 Leases for the first time in the annual reporting period commencing 1 April 2019. The impact of the adoption of this standard has been disclosed in note 1.14.

1.2 Revenue recognition

An entity shall recognise revenue to depict the transfer of promised goods to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods. The following specific recognition criteria must also be met before revenue is recognised:

Finance income
Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts the future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Revenue from the sale of goods
The Company recognise revenue when it has satisfied a performance obligation by transferring goods to a customer.

Performance obligations and timing of revenue recognition

The Company's revenue is derived from the sale of pharmaceuticals to wholesalers and to direct customers. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer that reflects the consideration which the Company expects to be entitled in exchange for those goods. Revenue is recognised at a point in time when control of the goods has transferred to the customer.

The point at which control passes depends on the terms and conditions of the contract and is effective either once physical delivery or receipt of the products at the agreed location has occurred.

Determining the transaction price

The majority of the Company's revenue is derived from contracts which define a fixed price per unit sold. In certain contracts the consideration includes a variable element in the form of volume rebates and discounts, clawbacks and returns.

1 ACCOUNTING POLICIES (Continued)

1.2 Revenue recognition (continued)

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Historical experience enables the Company to estimate reliably the value of discounts to be granted, rebates to be paid or clawbacks and restrict the amount of revenue that is recognised such that it is highly probable that there will not be a reversal of previously recognised revenue when goods are returned.

Certain contracts provide a customer with a right to return the goods within a specified period.

The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled.

The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognises a provision for sale returns. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Assets and liabilities arising from rights of return

Right of return assets

Right of return Assets represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

Provision for sale returns

Provision for sale returns is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will have to return to the customer.

The Company updates its estimates of provision for sales returns (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

Practical expedients applied

The Company's contracts with customers are short term in nature (less than 12 months).

Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of the consideration for the effects of a significant financing component if it expects at contract inception that the period between the transfer of the promised goods to the customer and when the customer pays for the goods will be one year or less.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.3 Property, plant and equipment

Property, plant and equipment are initially recognised at cost, being the cash price equivalent at the recognition date. The cost of an asset comprises any costs incurred in bringing the asset to the location and condition necessary for it to operate as intended by management.

Property, plant and equipment are subsequently stated at cost, less accumulated depreciation and any accumulated impairment in value.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. All other repairs and maintenance expenditures are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation commences when the assets are available for their intended use. Property, plant and equipment are depreciated on the straight-line basis over the expected useful lives of the various classes of assets, after taking into account residual values.

Useful lives of the property, plant and equipment, the depreciation method, depreciation rates, and residual values are reviewed on an annual basis, and adjusted prospectively, if appropriate.

Plant and equipment	20.00%
Motor vehicles	20.00%
Furniture and fittings	16.67%
Office equipment	20.00%
Computer equipment	33.33%
Computer software	50.00%
Advertising equipment	20.00%
Leasehold improvements	20.00%
Sap Software	50.00 %

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Improvements to leasehold property are capitalised and depreciated over the period of the relevant lease agreements if there is no reasonable certainty that the lessee will obtain ownership of the asset at the end of the lease term.

1.4 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against the profits in the year in which the expenditure is incurred.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.4 Intangible assets (continued)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

The carrying value of intangible assets is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.
The expected useful lives are as follows:

- Trademarks 10 years
- Dossiers purchased / Licence agreements 10 years

The useful life of the intangible assets is reviewed annually and if the expected useful life differs from previous estimates the amortisation period is changed accordingly.

1.5 Impairment of non-financial assets

At each reporting date the Company assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount, with the impairment loss being recognised in the statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.5 Impairment of non-financial assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in profit or loss.

1.6 Leases

The Company applied the IFRS 16 'Leases' standard during the current year. The standard is applicable to all reporting periods on or after 1 April 2019.

The Company is party to lease contracts for:
- Buildings; and
- Motor Vehicles

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases classified in the prior year in terms of IAS 17

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated to residual value over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

IFRS 16: Leases

i) Right-of-use asset

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over lease term. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.6 Leases (continued)

index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

1.7 Inventories

Inventory is valued at the lower of cost, determined on the weighted average basis and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and costs necessary to make the sale. Where necessary a provision is made for obsolete, slow moving or defective inventory.

1.8 Financial Instruments

Financial Instruments - initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section 1.2 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.8 Financial Instruments (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in the following categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Company's financial assets at amortised cost includes trade receivables and cash and cash equivalents.

Cash and cash equivalents

Bank balances and cash in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, bank balances and cash consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

This category includes derivative instruments and investments.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.8 Financial instruments (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of Financial Assets

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. ECL has been measured on a collective basis as the various customers segments have similar loss patterns.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's financial liabilities include trade and other payables as well as loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9.

Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.8 Financial instruments (continued)

Trade and other payables

Trade payables are obligations to pay for goods that have been acquired from suppliers in the ordinary course of business. Trade payables are classified as current liabilities is payment is due within 1 year or less. If not, they are presented as non-current liabilities.
Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of comprehensive income. This category generally applies to interest-bearing loans and borrowings.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

1.9 Provisions

Provisions are recognised where there is a present legal or constructive obligation as a result of a past event, a reliable estimate of the obligation can be made, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

1.10 Foreign currency translations

Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (functional currency). The Company's functional and presentation currency is South African Rands and all amounts, unless otherwise indicated, are stated in South African Rands.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of comprehensive income. Exchange differences on non-monetary items are accounted for based on the classification of the underlying item.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.11 Taxes

Current tax
Income tax and capital gains tax on the profit or loss for the year comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted at the statement of financial position date, and any adjustments to tax payable in respect of previous years.

Deferred tax
Deferred income tax and deferred capital gains tax are provided for on the comprehensive basis, 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, using tax rates enacted at the statement of financial position date. Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets and liabilities are not discounted.

Deferred tax relating to items which are charged or credited directly to equity, is also charged or credited directly to equity and is subsequently recognised in the statement of comprehensive income together with the deferred gain or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax liabilities are recognised for all taxable temporary differences.

Value added tax (“VAT”)
Revenues, expenses and assets are recognised excluding VAT except:

- Where VAT incurred on a purchase of assets or services is not recoverable from the South African Revenue Service, the VAT is recognised as a part of the cost of acquisition of the asset or as a part of the expense item as applicable and
- Trade receivables and payables are stated inclusive of VAT.

The net amount of VAT recoverable or payable to the South African Revenue Service is included as a part of other payables or receivables.

Withholdings Tax (“DWT”)
Dividend withholding tax is a tax on shareholders when dividends are paid to them. Dividends is paid over to the governing body by the entity paying the dividend. Due to double tax treaty agreement the Company does not pay dividend tax on dividends paid to it’s holding company
.

1.12 Equity-Settled Employee Share Scheme

Share options in Lupin Limited are granted to directors and key employees of Pharma Dynamics. The scheme in operation is classified as equity-settled. The equity-settled scheme allows certain employees the option to acquire ordinary shares in Lupin Limited. Such equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at grant date of the equity-settled share-based payment is

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.12 Equity-Settled Employee Share Scheme (continued)

charged as an employee-share option expense on a straight-line basis over the period that the employee becomes unconditionally entitled to the options, based on management of Lupin Limited's estimate of the shares that will vest and adjusted for the effect of non-market vesting conditions. These share options are not subsequently revalued.

Fair value is determined using the black scholes model where applicable. The fair value takes into account the terms and conditions on which the incentives are granted and the extent to which the employees have rendered services at the reporting date.

1.13 Significant accounting judgements and estimates

Judgements
In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

Depreciation rates
At the beginning of each financial year management reviews the assets for their expected remaining useful life and residual values and base their depreciation rates for the year on these inputs. Management takes into account factors such as the condition of the asset, manner of recovery and relevant market information when making this assessment.

Amortisation rates
At the beginning of each financial year management reviews the assets for their expected remaining useful life and residual values and base their amortisation rates for the year on these inputs. Management takes into account factors such as the condition of the asset, manner of recovery and relevant market information when making this assessment.

Estimation uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Intangibles
Impairment exists when the carrying value of the intangible asset exceeds its recoverable amount, which is the higher of it
s fair value and its value in use. Value in use is calculated by way of a net present value calculation taking into account current gross margins, medium term budgeted sales based on market data and discount rates. In addition, impairments may be considered as a result of delays in final registration at the South African Health Products Regulatory Authority (SAHPRA).

Incremental Borrowing Rate
The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

1.13 Significant accounting judgements and estimates (continued)

Bonus provision
Management base the bonus provision on estimated bonus payouts taking into account whether the Company achieves its financial targets, individual staff performance and is at the directors' final discretion. Bonuses will be paid out once the annual financial statements have been approved.

Stock obsolescence provision
Stock items are reviewed on a line by line basis by management and any stock that is due to expire in four months is provided for. Slow moving items expected to realise less than cost have a provision raised or the difference between selling price less selling cost and original cost.

Customer returns
For the sale of goods, the Company recognises revenue net of returns and records a separate liability for expected returns as provisions. The Company estimates the amount of returns based on historical data for specific products.

Expected credit loss (ECL)
The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast to economic conditions may also not be representative of customer's actual default in the future.

1.14 Standards, interpretations and amendments to published standards that are effective

IFRS 16 Leases

The Company applied IFRS 16 Leases for the first time. The IFRS 16 modified retrospective approach has been applied.

The Company elected to not apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC 4 for the purposes of the requirements in IFRS 16.
The Company applied IFRS 16 at the beginning of the annual reporting period 1 April 2019. Before the entity applied IFRS 16 the Company applied IAS 17 to its lease contracts. On transition the entity recognised the right of use of asset at same value as the lease liability. The lease liability recognised at initial recognition is measured at the present value of its lease payments. The Company has not reassessed whether a contract is, or contains, a lease at the date of initial application. The entity has applied IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

1 ACCOUNTING POLICIES (Continued)

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease assets and liabilities recognised under IAS 17).

Leases previously accounted for as operating leases
The Company recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. All right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. IFRS 16.

The entity used a weighted average incremental borrowing rate of 7.75% due to the Company having minimal borrowings in relation to its equity. The Company derecognised any straight lining adjustments that it recognised in terms of its operating lease in terms of IAS 17. The difference of R840 399 between the result of discounting the operating lease commitments reported under IAS 17 at the end of the annual reporting period preceding the date of initial application and lease liabilities recognised on the statement of financial position immediately after posting the cumulative catch-up adjustment on the date of initial application relates to commitments of short terms leases and the finance leases.

Impact on the Statement of financial position (increase/ (decrease)) on 1 April 2019:

	R
Assets	
- Right of use	7 342 615
- Deferred Tax	718 110
- Property, Plant and Equipment	(744 539)
Liabilities	
- Lease Liability	11 155 393
- Finance Lease	(265 160)
- Other payables - Deferred rent	(1 727 478)
Equity	
- Accumulated profits	(1 846 569)

2 REVENUE

	2020 R	2019 R
Revenue comprises the following:		
Revenue from contracts with customers	1 218 835 169	1 160 042 690
Interest Income	43 386 600	40 881 602
	1 262 221 769	1 200 924 292

Revenue from contracts with customers is made up as follows:		
Gross Sales	1 233 825 852	1 175 982 233
Sales returns, volume discounts and clawbacks	(14 990 683)	(15 939 543)
	1 218 835 169	1 160 042 690

2.1 Disaggregated Revenue Information

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	2020 R	2019 R
Type of customers		
Wholesalers	983 518 177	933 898 251
Direct customers	235 316 992	226 144 439
	1 218 835 169	1 160 042 690

Revenue from direct customers is derived from the sale of goods to pharmacies, hospitals, government enterprises and other local and foreign customers.

Type of goods		
Cardiovascular	590 625 412	586 369 941
Over-the-counter	297 552 510	238 807 754
Central nervous system	189 616 263	199 100 731
Intravenous therapy	99 523 982	90 091 736
Family healthcare	37 347 813	40 402 873
Anti-Tuberculosis	4 169 189	5 269 656
Total revenue from contracts with customers	1 218 835 169	1 160 042 690

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

2 REVENUE (Continued)

	2020 R	2019 R
2.2 Contract Balances		
Trade Receivables (Note 11)	314 171 958	212 680 523

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

2.3 Performance Obligations

Information about the Company's performance information is summarised below:

Sales of goods to customers

The performance obligations are either satisfied upon delivery of the goods to the customers or once the invoice is raised depending on the terms and conditions of the contract or invoice. Payment is generally due within 30 to 90 days from delivery. Sales to wholesalers are made at the SEP (single exit price), to government at tender price and exports are sold at contract price. Some contracts provide customers with a right of return, volume discounts and clawbacks which results in contract liabilities i.e. deferred revenue and variable consideration in respect of volume discounts and clawbacks.

3 PROFIT FROM OPERATIONS

Profit from operations is stated after taking the following items into account:

	2020 R	2019 R
Expenditure		
Amortisation of intangible assets	3 882 403	4 499 384
Impairment of intangible assets	737 720	-
Auditor's remuneration	2 155 953	1 695 218
- Current year	2 103 165	1 277 518
- Non audit services	52 788	417 700
Depreciation		
- Property Plant and Equipment	2 829 748	1 672 088
- IFRS 16	3 658 161	-
Operating lease expense		
- Premises	-	5 148 205
- Equipment	-	376 631
Write-off of property, plant and equipment	4 521	278 979
Direct selling	163 195 964	157 282 861
Distribution	37 483 229	35 201 564
Promotion	28 053 299	31 611 241
Loss on foreign exchange	7 318 437	4 037 416
Directors' emoluments		
- Executive	8 759 542	8 027 482
- Salaries and wages	100 576 039	95 654 597
- Commissions	10 977 622	10 707 173
- Motor vehicle allowances	13 468 386	10 394 615
- Staff recruitment fees	895 141	822 420
- Staff training and welfare	3 866 308	1 212 200
- Employee Stock Ownership Plan (ESOP)	1 738 124	1 695 609

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

3 PROFIT FROM OPERATIONS (Continued)

	2020 R	2019 R
Income		
Dossier Sale	500 000	2 000 000
Management Fee	175 955	595 530
Litigation	-	2 068 475

4 TAXATION

	2020 R	2019 R
Current income tax charge	85 461 167	90 947 756
Current year	85 507 386	90 962 557
Prior year over provision	(46 219)	(14 801)
Deferred tax		
Relating to origination and reversal of temporary differences	(1 833 397)	108 747
	83 627 770	91 056 503

Tax rate reconciliation	%	%
Normal rate of taxation	28.00	28.00
Non-deductible expenses*	2.33	2.44
Allowances not claimed through profit and loss	(2.18)	(3.31)
Effective rate	27.85	27.13

* Included in non-deductible expense is BEE cost of R31m

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

5. PROPERTY, PLANT AND EQUIPMENT

2020

	Leasehold improvements R	Plant and equipment R	Motor vehicles R	Furniture and fittings R	Advertising equipment R	Office equipment R	Computer equipment R	Computer software R	Computer Software under Construction R	Library R	Total R
Beginning of year											
- assets at cost	722 195	-	787 009	2 327 007	23 336	205 416	3 368 599	1 832 585	327 018	9 333	9 602 497
- accumulated depreciation	(272 882)	-	(491 783)	(1 463 608)	(5 662)	(88 506)	(1 271 232)	(526 021)	-	(9 333)	(4 129 027)
Carrying value	449 313	-	295 226	863 399	17 674	116 910	2 097 367	1 306 564	327 018	-	5 473 470
Current year movements											
- additions	-	-	-	227 105	-	1 077 214	-	2 805 597	-	-	4 109 915
- write offs	-	-	-	(4 521)	-	-	-	-	-	-	(4 521)
- depreciation	-	-	-	(326 645)	-	(114 568)	(1 179 915)	(1 208 620)	-	-	(2 829 748)
- reclassification	(449 313)		(295 226)	-	(17 674)	-	-	327 018	(327 018)	-	(762 212)
Balance at end of year	-	-	-	759 338	-	1 079 556	917 452	3 230 558	-	-	5 986 904
Made up as follows:											
- assets at cost	-	-	-	2 549 591	-	1 282 630	3 368 599	4 965 199	-	-	12 166 019
- accumulated depreciation	-	-	-	(1 790 253)	-	(203 074)	(2 451 147)	(1 734 641)	-	-	(6 179 115)
Carrying value	-	-	-	759 338	-	1 079 556	917 452	3 230 558	-	-	5 986 904

2019

	Leasehold improvements R	Plant and equipment R	Motor vehicles R	Furniture and fittings R	Advertising equipment R	Office equipment R	Computer equipment R	Computer software R	Computer Software under Construction R	Library R	Total R
Beginning of year											
- assets at cost	346 531	708 303	954 599	3 004 012	23 336	330 322	2 218 048	790 361	-	9 333	8 384 845
- accumulated depreciation	(140 119)	(460 817)	(461 889)	(2 082 805)	(995)	(258 317)	(1 270 327)	(225 079)	-	(8 400)	(4 908 748)
Carrying value	206 412	247 486	492 710	921 207	22 341	72 005	947 721	565 282	-	933	3 476 097
Current year movements											
- additions	413 086	-	-	290 002	-	107 319	1 619 223	1 191 723	327 018	-	3 948 440
- disposals	(20 682)	(127 715)	(13 966)	(86 623)	-	(27 367)	-	(2 626)	-	-	(278 979)
- depreciation	(149 503)	(119 771)	(183 518)	(261 188)	(4 667)	(35 047)	(469 587)	(447 814)	-	(933)	(1 672 088)
Balance at end of year	449 313	-	295 226	863 398	17 674	116 910	2 097 357	1 306 565	327 018	-	5 473 470
Made up as follows:											
- assets at cost	722 195	-	787 009	2 327 007	23 336	205 416	3 368 599	1 832 585	327 018	9 333	9 602 497
- accumulated depreciation	(272 882)	-	(491 783)	(1 463 608)	(5 662)	(88 506)	(1 271 232)	(526 021)	-	(9 333)	(4 129 027)
Carrying value	449 313	-	295 226	863 399	17 674	116 910	2 097 367	1 306 564	327 018	-	5 473 470

On transition to IFRS 16, the Company reclassified leasehold improvements and motor vehicles to Right of use asset in terms IFRS16. Please see note 6.
During the current year, the Company reclassified PPE due to change in enterprise resource planning (ERP) software.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

6. RIGHT OF USE ASSET

	Property R	Motor Vehicles R	Total R
Beginning of year			
- assets at cost	-	-	-
- accumulated depreciation	-	-	-
Carrying value	-	-	-
Current year movements			
- reclassification on transition of IFRS 16	449 313	295 226	744 539
- recognition of asset on transition of IFRS 16	6 598 076	-	6 598 076
- additions	787 463	-	787 463
- disposals	-	-	-
- depreciation	(3 505 094)	(153 067)	(3 658 161)
Balance at end of year	4 329 758	142 159	4 471 917

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

7 INTANGIBLE ASSETS

	2020			2019		
	Cost R	**Accumulated amortisation R**	**Carrying value R**	**Cost R**	**Accumulated amortisation R**	**Carrying value R**
Trademarks	-	-	-	580 030	(580 030)	-
Purchased dossiers / Licence agreements	53 792 647	(25 088 461)	28 704 186	51 446 909	(21 647 785)	29 799 124
	53 792 647	(25 088 461)	28 704 186	52 026 939	(22 227 815)	29 799 124

The carrying amounts of intangible assets can be reconciled as follows:

	Carrying value at beginning of year R	**Additions R**	**Impairment R**	**Amortisation R**	**Carrying value at end of year R**
2020					
Purchased dossiers / Licence agreements	29 799 124	3 525 185	(737 720)	(3 882 403)	28 704 186
	29 799 124	3 525 185	(737 720)	(3 882 403)	28 704 186
2019					
Purchased dossiers / Licence agreements	30 683 349	3 615 159	-	(4 499 384)	29 799 124
	30 683 349	3 615 159	-	(4 499 384)	29 799 124

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

8 INVESTMENTS	2020 R	2019 R
Investment	8 500 000	8 500 000

This amount relates to the Company's Investment in BBBEE.

9 DEFERRED TAX

	Statement of financial position		Statement of comprehensive income	
	2020 R	2019 R	2020 R	2019 R
Analysis of deferred tax				
Deferred tax assets/(liabilities)				
Property, plant and equipment	(39 804)	(82 663)	42 859	55 295
Trademarks	-	16 241	(16 241)	(8 120)
Provision for obsolete stock	1 426 993	707 735	719 258	34 436
Expected credit losses	253 802	73 649	180 153	73 346
Intangibles	(470 003)	(1 733 588)	1 263 585	434 160
Provision for sales return	597 896	500 058	97 838	29 272
Employee Stock Ownership Plan (ESOP)	30 181	28 108	2 073	8 679
Prepaid expenses	(3 563 802)	(2 156 178)	(1 407 624)	(1 122 135)
Provisions	5 261 132	3 693 254	1 567 878	483 597
Deferred rent*	-	357 886		(53 006)
Right-of-use asset*	(1 320 536)	-	652 733	-
Lease liability*	1 854 395	74 245	(1 269 115)	-
	4 030 254	1 478 747	(1 833 397)	(108 747)

*During the current year the Company adopted IFRS 16 Leases. The value by which the opening deferred tax was adjusted by is R718 110.

10 INVENTORIES	2020 R	2019 R
The amounts attributable to the different categories are as follows:		
Raw materials	1 740 664	1 351 000
Work in progress	23 017 684	8 683 813
Finished goods	170 788 472	154 839 576
	195 546 820	164 874 389

The amount of write-downs of inventory recognised as an expense is R5 156 816 (2019: R8 496 425) which is recognised in cost of sales. At year end, the provision for obsolete stock amounts to R5 096 405 (2019: R2 527 625). Inventory is written off due to the goods being damaged or expired.

11 TRADE AND OTHER RECEIVABLES	2020 R	2019 R
Interest receivable	4 071 716	14 351 867
Trade receivables	312 963 377	212 329 812
Deposits	451 939	490 908
Prepayments	13 886 978	7 700 636
	331 374 010	234 873 223

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

11 TRADE AND OTHER RECEIVABLES (Continued)

Trade receivables is made up as follows:

	2020 R	2019 R
Gross trade receivables	314 171 958	212 680 523
Expected credit losses	(1 208 581)	(350 711)
Net trade receivables	312 963 377	212 329 812

Information about the credit exposures are disclosed in Note 19.

Set out below is the movement in the allowance for expected credit losses based on IFRS 9 principles of trade receivables for 2020:

	2020 R	2019 R
Opening Balance	(350 711)	(1 444)
Provision for expected credit losses	(1 016 506)	(473 431)
Write-off	158 636	88 164
Closing Balance	(1 208 581)	(350 711)

12 CASH AND CASH EQUIVALENTS

	2020 R	2019 R
Bank and cash	9 780 598	1 461 901
Short term deposits*	131 654 688	627 549 846
Cash and cash equivalents	141 435 286	629 011 747

*Included in short term deposits is an Investec fixed deposit account to the value of R110m, deposited during October 2019 with a maturity date at the end of April 2020.

13 SHARE CAPITAL

	2020 R	2019 R
Authorised		
1000 000 ordinary shares of R1 each	1000 000	1000 000
Issued		
100 000 ordinary share of R1 each	100 000	100 000
Reconciliation of number of shares in issue		
Issued shares at 1 April	100 000	100 000
Shares issued	-	-
Issued shares at 31 March	100 000	100 000

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

14 LEASES

	March 2020 R	*March 2019 R
Long Term Lease Liability		
- Motor Vehicles	-	98 266
- Property	2 450 050	-
	2 450 050	98 266
Short Term Lease Liability		
- Motor Vehicles	133 936	166 894
- Property	3 972 430	-
	4 106 366	166 894

* These amounts relate to the lease liabilities under the standard IAS 17.

	2020		2019	
	Minimum payments R	Present value of payments R	Minimum payments R	Present value of payments R
Within one year	4 333 523	4 008 361	178 435	166 894
After one year but not more than five years	2 686 686	2 548 055	100 689	98 266
Total minimum lease payments	7 020 209	6 556 416	279 124	265 160
Less amounts representing finance charges	(463 793)	-	-	-
Present value of minimum lease payments	6 556 416	6 556 416	265 160	261 160

The following are the amounts recognised in profit or loss:

	2020
Depreciation expense of right of use of asset	3 658 161
Interest expense on lease liability	698 291
Total amount recognised in profit or loss	4 356 452

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

14 LEASES (Continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 R	2019 R
Opening Balance	-	-
Recognition in terms of IFRS 16	11 155 393	-
Additions	181 514	-
Interest	698 291	-
Payments	(5 478 782)	-
Closing Balance	6 556 416	-

15 TRADE AND OTHER PAYABLES

	2020 R	2019 R
Trade payables*	97 928 754	92 687 664
Other payables	6 717 868	8 422 117
Accruals^	87 973 776	55 670 226
VAT	10 353 677	4 432 937
	202 974 075	161 212 944

*Included in trade payables is amounts owing to related parties. Refer to note 18 for details.

^ Included in accruals is an amount of R53 458 203 relating to stock in transit.

16 PROVISIONS

Opening balance	9 276 869	12 905 252
Utilised	(7 732 133)	(12 905 252)
Additions	10 881 067	9 276 869
	12 425 803	9 276 869

Provisions consist of:

Incentive bonus

Incentive bonuses are based on year end audited results. These bonuses are paid out once the annual financial statements have been signed off. During the current financial year R 5 596 791 has been utilised against the 2019 financial year provision and R7 757 724 has been added to the 2020 provision.

Provision for Sale Returns

Provision for sale returns are based on the total sales amount and is measured at the amount the Company ultimately expects it will return to the customer. During the current financial year R1 785 923 was utilised against the 2019 financial year provision and R2 135 242 has been added to the 2020 provision.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

17 DERIVATIVE INSTRUMENTS

All foreign exchange contracts are derivative financial instruments and are classified at fair value through profit and loss.

	R	R
Foreign exchange contract	2 141 961	31 788

18 RELATED PARTIES

The following companies and other entities are regarded as related parties:

Lupin Atlantis Holdings

Lupin Middle East

Ultimate holding Company

Lupin Ltd (Incorporated in India)

Holding Company

Nanomi B.V. (incorporated in the Netherlands)

Entities controlled by Pharma Dynamics directors

Pharma Disease Management Solutions (Pty) Ltd (PDMS) –T. J. Scott

2020

	Lupin Ltd	**Lupin Atlantis Holdings SA**	**Lupin Middle East**	**Nanomi B.V**	**PDMS**
	R	**R**	**R**	**R**	**R**
Income					
-Management Fee	-	-	175 955	-	-
Expenditure					
-Rental Paid	-	-	-	-	3 621 042
-Management Fee	-	2 126 575	-	-	-
-Inventory Purchases	44 140 248	-	-	-	-
-Dividend Paid	-	-	-	650 000 000	-
Reimbursement by related party					
-Recovery of Travel Expenses	113 052	-	-	-	-
-Equity Settled Employee Share Scheme	1 738 124	-	-	-	-
-Samples	-	-	191 656	-	-

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

18 RELATED PARTIES (Continued)

	Lupin Ltd	Lupin Atlantis Holdings SA	Lupin Middle East	Nanomi B.V.	PDMS
	R	R	R	R	R
IT Expenses	2 264 970	-	-	-	-
Compliance Consulting	-	52 183	-	-	-
Reimbursement from related party					
Recovery of Travel Expenses	1 344 795	-	-	-	-
Assets/Liabilities					
Amount owing by Related Parties	1 344 802	-	191 650	-	-
Amount owing to Related Parties	17 918 873	230 519	-	-	-

2019

	Lupin Ltd	Lupin Atlantis Holdings SA	Lupin Middle East	Nanomi B.V.	PDMS
	R	R	R	R	R
Income					
Management Fee	-	-	595 530	-	-
Expenditure					
Rental Paid	-	-	-	-	3 446 591
Management Fee		3 691 366			
Inventory Purchases	42 037 971	-	-	-	-
Dividend Paid	-	-	-	50 000 000	-
Reimbursement by related party					
Recovery of Travel Expenses	4 955	29 069	1 386 838	-	-
Equity Settled Employee Share Scheme (ESOP	1 695 609	-	-	-	-
IT Expenses	496 264	-	-	-	-
Assets/Liabilities					
Amount owing by Related Parties	-	-	1 982 368	-	-
Amount owing to Related Parties	17 042 489	992 867	-	-	-

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise trade receivables, cash and cash equivalents and trade payables which arise directly from operations.

The Company has various other financial assets and liabilities such as investments and derivative instruments.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and market risk.

In assessing risk, the Company classifies financial assets and liabilities as follows:

Assets	Note	At amortised cost R	Fair Value through profit and loss R	Non-financial assets R	Total R
2020					
Trade and other receivables	11	317 487 032	-	13 886 978	331 374 010
Cash and cash equivalents	12	141 435 286	-	-	141 435 286
Investments		-	8 500 000	-	8 500 000
Foreign exchange contracts	17	-	2 141 961	-	2 141 961
Total		458 922 318	10 641 961	13 886 978	483 451 257
2019					
Trade and other receivables	11	227 172 586	-	7 700 636	234 873 223
Cash and cash equivalents	12	629 011 747	-	-	629 011 747
Investments		-	8 500 000	-	8 500 000
Foreign exchange contracts	17	-	31 788	-	31 788
Total		856 184 333	8 531 788	7 700 636	872 416 758

Liabilities	Note	At amortised cost R	Fair Value through profit and loss R	Non-financial liabilities R	Total R
2020					
Trade and other payables	15	158 104 825	-	44 869 250	202 974 075
Lease liabilities	14	6 556 416	-	-	6 556 416
Interest bearing loans	19	36 428 299			36 428 299
Total		201 089 540	-	44 869 250	245 958 790
2019					
Trade and other payables	15	127 065 354	-	34 147 590	161 212 944
Finance lease	14	265 160		-	265 160
Total		127 330 514	-	34 147 590	161 478 104

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.1 Credit risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Potential concentrations of credit risk consist principally of trade receivables and short term cash and cash equivalents.
The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. The Company only deposits short term cash surpluses with major banks of high quality credit standing. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The Company uses a provision matrix to calculate ECLs for trade receivables.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates, such as regulated price increases and various other economic factors impacting the business, are analysed. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The concentration of cash and cash equivalents with the major banks are as follows:

	2020	2019
	R	R
Investec	78%	84%
Standard Bank	22%	16%

The Company did not consider there to be any significant credit risk exposure which has not been adequately provided for.

The short-term credit ratings per Moody's rating agency as at 31 March 2020 for Standard Bank and Investec is P-1.za.

Interest bearing loans

The Company borrowed R36 428 299 to pay dividends during the current year. The Company had R110 000 000 in a fixed deposit account that matured in April that was used as security against said loan.

	2020	2019
	R	R
Opening Balance	-	-
Additional loans	36 428 299	-
		-
Closing Balance	36 428 299	-

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued))

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.1 Credit risk (continued)

Set out below is the information about the credit risk exposure on the Company's trade receivables using IFRS 9 principles

31 March 2020			Days past due			
	Outstanding Total	Current	31 -60 Days	61 -90 Days	91 -120 Days	More than 121 Days
Expected credit loss rate		0.1610%	0.2769%	0.4662%	7.8023%	43.7041%
Estimated total gross carrying amount at default	314 171 958	282 838 651	25 154 285	4 187 893	573 943	1 417 186
Expected credit loss	1 208 581	455 255	69 651	19 525	44 781	619 369

31 March 2019			Days past due			
	Outstanding Total	Current	31 to 60 days	61 to 90 days	91 to 120 days	More than 121 days
Expected credit loss rate		0.0150%	0.0593%	0.4844%	2.8890%	5.1936%
Estimated total gross carrying amount at default	212 680 523	108 875 596	63 289 439	37 587 855	2 246 081	960 565
Expected credit loss	350 711	16 352	37 512	182 070	64 888	49 889

The Company's maximum exposure to credit risk is as follows

	2020 R	2019 R
Trade receivables, deposits and interest receivable	317 487 032	227 172 586
Short term deposits (refer Note 12)	131 654 688	627 549 846
Bank and cash	9 780 598	1 461 901
	458 922 318	856 184 333

19.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Liquidity risk management (continued)

The table below details the Company's expected maturity for its financial liabilities. The amounts are based on the undiscounted contractual maturities of the financial liabilities.

	Weighted average interest rate %	On demand R	Less than 1 month R	1 to 3 months R	3 months to 1 year R	1 to 2 years R	Over 2 years R	Total R
2020								
Non-interest bearing liabilities								
- trade payables	-	68 605 144	67 107 493	13 862 293	8 529 895	-	-	158 104 825
Interest bearing liabilities								
- lease liabilities	7.75	-	464 253	1 392 759	2 476 512	1 891 049	795 636	7 020 209
interest bearing loans		-	36 428 299	-	-	-	-	36 428 299
		68 605 144	104 000 045	15 255 052	11 006 407	1 891 049	795 636	201 533 333
2019								
Non-interest bearing liabilities		35 952 885	36 835 469	54 277 000	-	-	-	127 065 354
- trade payables	-							
Interest bearing liabilities								
- finance lease	5.99	-	14 869	44 608	125 825	93 822	-	279 124
		35 952 885	36 850 338	54 321 608	125 825	93 822	127 344 478	127 344 478

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.2 Liquidity risk management (continued)

The Company has substantial banking and borrowing capacity which has not been fully utilised due to the cash surpluses available. Total banking facilities are as follows:

	2020 R	2019 R
Total facilities at the date of this report:		
Credit card	1 520 000	1 520 000
Foreign exchange contracts	18 000 000	18 000 000
Fleet management	400 000	400 000
Vehicle and asset finance	2 500 000	2 500 000
Letter of credit	5 000 000	5 000 000
Lending	110 000 000	-
	27 420 000	27 420 000
Unutilised borrowing facility:		
Credit card	1 486 655	172 946
Foreign exchange contracts	15 858 039	17 968 212
Fleet management	122 789	400 000
Vehicle and asset finance	2 401 995	2 234 840
Letter of credit	5 000 000	5 000 000
Lending	73 571 701	-
	24 869 478	25 775 998

Total facilities include a lending facility of R110 000 000, credit card facility of R1 520 000, fleet management services facility of R400 000, forward exchange contracts facility of R18 000 000, vehicle and asset financing of R2 500 000 and Letter of Credit of R5 000 000.

19.3 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of market prices. Market prices comprise three types of risk: Interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include trade receivables, trade payables loans and borrowings, cash and cash equivalents, deposits, and derivative financial instruments.

19.3.1 Foreign currency risk management

The Company undertakes certain transactions in foreign currencies, hence exposure to exchange rate fluctuations arise.

The Company had foreign liabilities at 31 March 2020 amounting to: EUR 1 323 579 and USD 1 080 221. These amounts total R61 003 889 and are included as part of trade and other payables per the statement of financial position.

The Company measures sensitivity to foreign exchange rates as the effect of a change in the foreign currency exchange rate on profit before tax based on the Company's exposure at 31 March. The Company regards a 15% change in the foreign exchange rate as being reasonably possible at 31 March.

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.3.1 Foreign currency risk management (continued)

The sensitivity of the Company's profit before tax due to a reasonably possible change in exchange rates, with all other variables held constant, through the impact on foreign purchases is as follows:

	Movement in foreign currency rate*	Effect on profit before tax (and equity) R
2020		
Euro	15%	3 917 172
US Dollar	15%	2 902 889

*A weakening of the exchange rate will have an equal and opposite effect on profit before tax (and equity).

	Movement in foreign currency rate	Effect on profit before tax (and equity) R
2019		
Euro	15%	4 072 637
Pound Sterling	15%	867 919
US Dollar	15%	3 554 739

The Company has trade payables that have foreign currency exposures that result from purchases of generic medicines in a currency basis that is different to the Company's functional currency. In order to mitigate the risk of these foreign currency transactions, these transactions are covered by forward exchange contracts.

All open foreign exchange contracts are valued at current market rates and resultant profits or losses as recognised in the statement of comprehensive income.

There was a FEC contract of R2 141 961 as at 31 March 2020, (2019: R31 788).

19.3.2 Interest rate risk management

The Company finances its operations through a mixture of excess cash and bank borrowings. As part of the process of managing the Company's interest rate risk, interest rate characteristics of new borrowings and the re-financing of existing borrowings are positioned according to expected movements in the interest rates.

The Company measures sensitivity to interest rates as the effect of a change in the Reserve Bank repo rate on profit before tax based on the Company's exposure at period end. The Company regards a 1% (2019: 1%) change in the Reserve Bank repo rate as being reasonably possible at period end. The sensitivity of the Company's profit before tax due to a reasonably possible change in interest rates, with all other variables held constant, through the impact on cash and cash equivalents is therefore as follows:

	Movement in basis points	Effect on profit before tax (and equity) R
2020	+100	216 546
	-100	(216 546)
2019	+100	1 267 326
	-100	(1 267 326)

19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

19.4 Capital risk management

The Company manages its capital to ensure that the Company will be able to continue to operate as a going concern while maximising the return to stakeholders.

The directors meet regularly to review the capital structure. As part of this review the directors consider the availability of funding to fund the Company's capital requirements. The directors also consider the cost of capital and the risks associated with each class of capital.

The Company's overall risk management strategies remain unchanged from 2019.

20 COMMITMENTS

The Company has committed to the purchases of certain certificates of registration. It is intended to finance this expenditure from existing borrowing facilities and from internally generated funds.

Included in capital expenditure contracted of R21 682 577 (2019: R19 981 397) are amounts owing in foreign currencies of USD 1 080 221, EUR 1 323 579 (2019: USD 122 500, EUR 1 049 607 and GBP 70 000). These amounts are not covered by forward exchange contracts or any hedging instruments at the end of the year.

Subject to registration dates it is estimated that the amount of R21 682 578 (2019: R19 981 397) will be payable over the following financial years:

	2020 R	2019 R
2020	3 972 175	6 096 913
2021	6 713 094	5 489 197
2022	4 127 292	3 002 411
2023	1 932 410	1 224 932
2024	1 897 434	1 933 698
2025	3 040 173	2 234 246
	21 682 578	19 981 397

No securities were provided by the Company for these future commitments.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

		2020 R	2019 R
21	**NOTES TO THE STATEMENT OF CASH FLOWS**		
21.1	**Cash generated from operations**		
	Reconciliation of profit before taxation to cash generated from operations		
	Profit before taxation	300 239 778	335 625 476
	Adjusted for:		
	Depreciation	6 487 909	1 672 088
	Write off of PPE	4 521	278 979
	Interest income	(43 386 600)	(40 881 602)
	Interest paid	701 056	79 923
	Discounts and rebates allowed	100 290	-
	Provision for bad debts	1 016 506	437 431
	Movement in provision	3 148 934	14 828 393
	Impairment of intangible assets	737 720	-
	Amortisation	3 882 403	4 499 384
	Write down of inventory	5 156 816	8 496 425
	Unrealised profit/(loss) on foreign currency	2 007 761	1 071 609
	Litigation fee	-	(2 068 745)
	Profit on sale of intangible asset	(500 000)	-
	Bad debts recovered	(156 636)	-
	Other non-cash flow items	(878 061)	-
	Operating profit before working capital changes	278 562 397	324 039 362-
21.2	**Movement in working capital changes**		
	(Increase)/Decrease in inventory	(38 714 559)	35 341 773
	Increase in trade and other receivables	(98 311 834)	(38 520 060)
	Increase in trade and other payables	41 761 131	24 478 436
		(95 265 262)	21 300 149
21.3	**Reconciliation of taxation paid during year**		
	Normal tax		
	Balance at beginning of the year	4 061 548	(1 611 617)
	Current tax recognised in the statement of comprehensive income	(85 461 167)	(90 947 756)
	Balance at end of the year	(5 807 757)	(4 061 548)
	Total tax paid	(87 207 376)	(96 620 921)
21.4	**Cash and cash equivalents**		
	Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:		
	Cash and cash equivalents	141 435 286	629 011 747

22 DIRECTORS' EMOLUMENTS

	Executive Director Cornelius Frederik Roos		Executive Director Thomas Scott	
	2020 R	2019 R	2020 R	2019 R
Normal payroll				
Cash salary	3 176 790	2 968 962	1 688 215	1 569 292
Medical aid	45 365	61 561	70 046	66 785
Provident fund	522 910	505 153	278 402	267 480
Trauma	16 595	14 207	8 819	7 509
Bonuses and performance payments	1 928 524	1 798 435	543 568	314 615
Other allowances	57 611	43 286	23 696	26 197
Car allowances	240 000	240 000	159 000	144 000
	5 987 795	5 631 604	2 771 746	2 395 878

Refer to page 1 for list of directors of the company. All individuals not listed as a director are considered prescribed officers of the Company.

PHARMA DYNAMICS PROPRIETARY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31 MARCH 2020 (Continued)

23 EVENTS SUBSEQUENT TO YEAR END

Towards the end of the financial year the impact of the global Coronavirus pandemic hit the shores of South Africa and an official lockdown came into effect at midnight on the 26th of March 2020. Although we have experienced some sporadic short-term supply issues, we have been in constant contact with our product supply partners to ensure security of supply. During our communication they have not indicated that there are any other major events that may impact on our product availability. In spite of the crisis, Pharma Dynamics is well positioned as our core business is built around chronic generic medication, whilst our OTC portfolio (IQVIA March 2020) recorded growth in excess of 43% over the last 12 months. The advent of the Coronavirus was a key contributor to the OTC portfolio growth, resulting in Pharma Dynamics being recognised as the fastest growing company in this sector (IQVIA March 2020). The overall OTC market is only growing at 5,2%. As the Coronavirus is set to become part of our daily lives, we believe this sector will continue to show strong growth in support of the overall Pharma Dynamics business.

Pharmaceutical companies were identified as Essential Services at the commencement of the COVID-19 lockdown, so from an operational and business continuity perspective Pharma Dynamics has not been negatively affected. We have however had to adopt alternative marketing strategies so enable our sales force to interact with Healthcare Professionals. This is being done digitally through the use of platforms already in existence prior to the lockdown. Our manpower requirements have been evaluated and have not changed since the commencement of the lockdown. Due to the fact that we do not have any physical retail presence combined with our ability to continue business operations during the lockdown we have not approached our landlords for any rental relief.

Since January 2020 we have seen a significant deterioration of the Rand against all major currencies. As Pharma Dynamics imports around 95% of its products from its manufacturing partners across the globe, we have evaluated the impact of the increase of our cost of goods for our 2021 financial year. Based on our analysis we anticipate an increase in cost of goods in the region of R77m, should exchange rates remain at current levels. Although this will impact on our overall profitability, we do not see this as a challenge from a going concern perspective. We have also not identified a meaningful increase in or credit risk as all entities we deal with are also classified as Essential Services, and have been able to continue operations during the COVID-19 lockdown. In addition, Pharma Dynamics has adequate resources to carry on business should there be a chance of significant delays in customer payments occurring. We are continuously monitoring overall credit limits and adherence to agreed payment terms.

In addition, the loan of R36 million taken out during the year for funding the dividend payment has been repaid post year end.

PHARMA DYNAMICS PROPRIETARY LIMITED

DETAILED UNAUDITED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	2020 R	2019 R
Gross Revenue		
Sales	1 218 835 169	1 160 042 690
Cost of sales	(479 905 196)	(440 509 163)
Gross profit	738 929 973	719 533 527
Other income and interest	43 777 992	46 220 579
Interest received	43 386 600	40 881 602
Sale of intangible asset	500 000	2 000 000
SETA Claims	433 812	554 955
Bad debts recovered	158 636	-
Interest paid	(2 765)	(79 923)
Interest Expense on Lease Liabilities	(698 291)	-
Stock loss charge to distributer	-	199 940
Management Fee	-	595 530
Litigation Fee	-	2 068 475
Total income	782 707 965	765 754 106
Expenditure	(482 468 187)	(430 128 630)
Profit before taxation	300 239 778	335 625 476
Taxation	(83 627 770)	(91 056 503)
Profit after taxation	216 612 008	244 568 973

PHARMA DYNAMICS PROPRIETARY LIMITED

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED 31 MARCH 2020

Expenditure	**2020 R**	**2019 R**
Advertising	14 359 885	12 442 358
Amortisation of intangible assets	3 882 403	4 499 384
Asset purchased and written off	-	16 027
Auditor's remuneration	2 155 953	1 695 218
Bad debts	1 016 506	437 431
Bank charges	308 958	291 516
BEE charges	36 439 514	4 377 755
Broker administration costs	151 225	162 793
Cellphones	1 071 496	1 031 044
Commissions	10 977 622	10 707 173
Computer expenses	4 050 827	3 279 284
Conferences and meetings	2 618 427	3 490 511
Consulting fees	2 580 594	6 682 076
Courier and postage	1 315 516	1 140 316
Depreciation – Property plant and equipment	2 829 748	1 672 088
Depreciation – IFRS16	3 658 161	-
Direct selling	163 195 964	157 282 861
Discount and rebates allowed	100 290	201 085
Distribution	37 483 229	35 201 564
Donations	2 500	-
Electricity and water	205 997	162 483
Employee Stock Ownership Plan (ESOP)	1 738 124	1 695 609
Entertainment	-	205 738
Forex management fee	282 999	167 222
Group life and disability	791 775	915 080
Human resources	1 129 530	1 043 170
Impairment of intangible assets	737 720	303 003
Insurance	2 001 903	1 663 545
Interest paid	283 935	-
Legal fees	109 650	-
Levies	6 542	1 385 600
Licences	-	75 868
Loss on foreign exchange	7 318 437	4 037 416
Write off	4 521	278 979
Motor vehicle expenses	4 741 073	5 056 160
Office renovation	6 293	37 880
Printing and stationery	802 843	637 661
Promotion	28 053 299	31 611 241
Project development costs	506	285
Rates	232 083	242 586
Recruitment fees	895 141	822 420
Refreshments	520 105	472 414
Relocation costs	194 374	33 457
Rent	535 674	5 524 836
Repairs and maintenance	592 751	364 091
Regulatory expenses	2 985 128	3 219 773
Salaries and wages (including directors emoluments)	122 803 967	114 076 694
Samples	731 087	426 622
Software Implementation	-	17 797
Social Committee	-	116 821
Staff training	3 263 782	1 052 954
Staff welfare	602 526	116 821
Subscriptions	325 619	301 135
Telephone and fax	729 778	836 029
Trademark and Patent	649 380	281 696
Trauma cover	407 608	363 324
Travel	4 317 421	3 434 920
Quality Assurance	6 267 798	4 552 679
Total operating expenses	**482 468 187**	**430 128 630**