

Translation
Independent Practitioner’s Review Report

June 22, 2020

KAYAKU CO., LTD.
Chairman and Representative Director
Mr. Junichi Nakamichi

Ernst & Young ShinNihon LLC
Hironao Yazaki
Designated Engagement Partner
Certified Public Accountant

We have reviewed the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in net assets, and notes to the financial statements of KAYAKU CO., LTD. (the “Company”) applicable to the fiscal period from January 1, 2019 to March 31, 2020.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the Regulation on Corporate Accounting (subject to application of Article 98, Paragraph 2, Item 1 of the same regulation) and accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner’s Responsibilities

Our responsibility is to express an independent conclusion on these financial statements. We conducted our review in accordance with the Practical Guidelines on Review Engagements 2400, (JICPA Auditing Standards Committee Practical Guidelines No.1, January 26, 2016) which was issued by the Japanese Institute of Certified Public Accountants. This standard requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not, in all material respects, prepared in accordance with the Regulation on Corporate Accounting (subject to application of Article 98, Paragraph 2, Item 1 of the same regulation) and accounting principles generally accepted in Japan. Also, this standard requires that we comply with the Code of Professional Ethics.

A review of financial statements in accordance with the Practical Guidelines on Review Engagements 2400 is a limited assurance engagement. The review consists of making inquiries, primarily of management and other relevant persons, applying analytical procedures, and evaluation of the evidence obtained.

A review is substantially more limited in scope than an audit conducted in accordance with auditing standards generally accepted in Japan. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements are not prepared, in all material respects, in accordance with the Regulation on Corporate Accounting (subject to application of Article 98, Paragraph 2, Item 1 of the same regulation) and accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

Notes to the Readers of Independent Practitioner's Review Report

This is an English translation of the Independent Practitioner's Review Report as required by the Companies Act of Japan for the conveniences of the reader.

KAYAKU CO.,LTD.

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Balance Sheet as of March 31, 2020

(Unit : Japanese yen)

Asset	
Current Assets	
Cash and Deposits	219,165,188
Trade Receivable	1,060,570,635
Accounts Receivable Other	22,100,235
Inventories	853,894,275
Prepaid Expenses	2,423,107
Advance Payment	29,323,168
Total Current Assets	2,187,476,608
Non-Current Assets	
Property and Equipment	
Buildings	3,882,308,359
Machinery & Equipment	2,544,482,489
Office Equipments & Other	507,583,555
Construction in progress	40,392,815
Accumulated Depreciation	(4,700,007,167)
Land	531,500,700
Total Property and Equipment	2,806,260,751
Intangible Assets	8,069,987
Other Assets	
Security Deposits	550,000
Deferred tax assets	76,615,822
Total Other Assets	77,165,822
Total Non-Current Assets	2,891,496,560
Total Assets	5,078,973,168
Liabilities	
Current Liabilities	
Trade Payable	344,002,021
Accounts Payable Other	519,744,182
Short Term Loan (to PPH)	900,000,000
Accrued Expenses	27,279,557
Consumption tax payable	84,570,400
Deposits received	5,618,642
Provision for Bonus	62,001,950
Total Current Liabilities	1,943,216,752
Non-Current Liabilities	
Asset Retirement Obligation	9,700,000
Provision for Retirement Benefits	104,354,230
Total Non-Current Liabilities	114,054,230
Total Liability	2,057,270,982
Equity	
Equity	
Share Capital	110,000,000
Capital surplus and Retained earning	2,911,702,186
Total Equity	3,021,702,186
Total Liabilities and Equity	5,078,973,168

KAYAKU CO.,LTD.

Profit & Loss Statement for the period ended March 31, 2019-2020 (Jan-Mar)

(Unit : Japanese yen)

Product Sales		5,952,140,952
Cost of Product Sales		5,461,723,936
Gross Profit		490,417,016
Selling, General and Administrative Expenses		
Personnel expenses		282,380,981
Depreciation and Amortization		15,890,542
Other		196,862,614
Total Selling, General and Administrative Expenses		495,134,137
Operating Profit		(4,717,121)
Non-Operating Income		
Interest Income	14	
Foreing Exchange Gain	607,659	
Miscellaneous Income	32,869,442	
Total Non-Operating Income		33,477,115
Non-Operating Expenses		
Interest Expense	3,297,051	
Total Non-Operating Expense		3,549,914
Ordinary Profit		25,210,080
Extraordinary Loss	19,575,835	
Total Extraordinary Loss		19,575,835
Profit before Income Tax		5,634,245
Income Tax		33,590,138
Net Profit		(27,955,893)

Statements of Shareholders' Equity

KAYAKU CO.,LTD.

From January 1, 2019

To March 31, 2020

(Unit : Japanese yen)

	Share Capital	Capital Reserve	Retained Earnings	Total Shareholders' Equity
		Other Capital Reserve	Retained Earnings brought forward	
Balance at January 1, 2019	110,000,000	371,000,000	2,568,658,079	3,049,658,079
changes of items during the period	-	-	-	-
Net Income (Loss)	-	-	(27,955,893)	(27,955,893)
Total changes of items during the period	-	-	(27,955,893)	(27,955,893)
Balance at March 31st, 2020	110,000,000	371,000,000	2,540,702,186	3,021,702,186

Notes to Financial Statements

(Summary of Significant Accounting Policies)

(1) Inventories evaluation standard and evaluation method

Merchandise and finished products . . .

Cost method based on the moving average method (For the balance sheet value, the book value is written down based on the decline in profitability)

Work in progress

Cost method based on the moving average method (For the balance sheet value, the book value is written down based on the decline in profitability)

Raw materials

Cost method based on the moving average method (For the balance sheet value, the book value is written down based on the decline in profitability)

Supplies

Final purchase cost method

(2) Depreciation method for fixed assets

① Tangible fixed assets

The declining balance method is used. However, the straight-line method is applied to buildings (excluding equipment attached to buildings) acquired after April 1998 and equipment and structures attached to buildings acquired after April 2016.

The main estimated useful lives are as follows.

Building	3 to 38 years
Structures	7 to 42 years
Machinery and equipment	2 to 16 years
Vehicles	4 years
Tools, furniture and fixtures	2 to 15 years

② Intangible fixed assets

The straight-line method is used. Software for internal use is amortized by the straight-line method over the usable period within the company (5 years).

(3) Provisions

Provision for bonuses

In order to cover the payment of bonuses to employees, the amount is calculated based on the expected payment amount.

① Provision for retirement benefits

To prepare for employees' retirement benefits, the transfer amount to the external and SME retirement allowance mutual aid system is deducted from the required payment amount.

② Provision for environmental measures

To prepare for the disposal of PCB (polychlorinated biphenyl) waste, the estimated amount of disposal costs is recorded.

(4) Consumption tax

Taxable transactions are recorded at amounts exclusive of consumption taxes.

(Notes to Statements of Shareholders' Equity)

(1) Type and number of shares issued.

	Number of Shares at the beginning of year	Increase of shares issued	Decrease of shares issued	Number of Shares issued at the end of year
Common stock	262,000	—	—	262,000

(2) Matters concerning dividends

① Dividend payment amount

Not applicable.

② Of dividends whose base date belongs to the current period, the effective date of the dividend will be the next period.

Not applicable.

(Other notes)

The company has decided to change its fiscal year to align with the fiscal year of Sun Pharma group based on the resolution of amendment of articles of incorporation at the extraordinary general meeting of shareholders which was held on December 24, 2019. For the current year, the company has applied its fiscal year as fifteen-month period which means from January 1, 2019 to March 31, 2020 for the treatment on the transition period.