

SUN LABORATORIES FZE

Financial Statements

31 March 2017

SUN LABORATORIES FZE

Financial Statements

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<i>CONTENTS</i>	<i>PAGES</i>
Director's report	1
Independent Auditors' Report	2 - 3
Statement of Financial Position	4
Statement of Profit or Loss and Other Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 14

SUN LABORATORIES FZE
Director's Report

The director submits his report and accounts for the year ended 31 March 2017.

Results and appropriations

The results of the establishment and the appropriations made for the year ended 31 March 2017 are set out on pages 5 and 6 of the financial statements.

Review of the business

The establishment has carried out activity of third port trading of pharmaceutical products manufactured by the ultimate parent company during the year. The establishment has also incurred/accounted marketing, selling and personnel expenditure incurred overseas during the year.

Events since the end of the year

There were no important events which have occurred since the year-end that materially affect the establishment.

Shareholder and its interest

The shareholder at 31 March 2017 and its interest as at that date in the share capital of the establishment was as under:

	<i>Country of incorporation</i>	<i>No. of shares</i>	<i>AED</i>	<i>USD</i>
Sun Pharma Holdings	Mauritius	<u>300</u>	<u>45,000,000</u>	<u>12,251,565</u>

Auditors

A resolution to re-appoint the auditors and fix their remuneration will be put to the board at the annual general meeting.

Rajesh K. Shah
DIRECTOR

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF SUN LABORATORIES FZE

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **SUN LABORATORIES FZE** (the establishment), which comprise the statement of financial position as at 31 March 2017, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to financial statements including a summary of significant accounting policies.

In our opinion, the accompanying the financial statements present fairly, in all material respects, the financial position of **SUN LABORATORIES FZE** as at 31 March 2017, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the establishment in accordance with the ethical requirements that are relevant to our audit of the financial statements in United Arab Emirates and in the Sharjah Airport International Free Zone Authority and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Without qualifying our audit opinion, we draw attention to note 2 to the financial statements which states that the accompanying financial statements have been prepared assuming that the establishment will continue as a going concern. As disclosed in note 2 to the financial statements, the establishment has incurred losses in recent years mainly due to impairment losses and expenditure incurred during the year resulting in deficit of equity funds. As of 31 March 2017, current liabilities exceed current assets. The continuation of the establishment's operation is dependent upon the continued financial support from the parent shareholder company and upon the establishment generating sufficient cash flows. The parent shareholder company has confirmed that they will continue to provide or arrange such financial support to enable the establishment to meet its obligations as they fall due.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and implementing regulations of Sharjah Airport International Free Zone Authority, and for 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.

In preparing the financial statements, management is responsible for assessing the establishment ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the establishment or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the establishment's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF SUN LABORATORIES FZE

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the establishment internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the establishment ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the establishment has maintained proper books of account and the financial statements are in agreement with the books of account. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the regulation issued by the Sharjah Airport International Free Zone Authority pursuant to Law No. 2 of 1995 or the Articles of Association of the establishment which might have materially affected the financial position of the establishment or its financial performance.

Signed by:

C. D. Shah

Partner

Registration No. 677

Shah & Alshamali Associates Chartered Accountants

11 May 2017

Dubai

SUN LABORATORIES FZE

Statement of Financial Position
31 March 2017

	<i>Notes</i>	<i>2017</i> <i>USD</i>	<i>2016</i> <i>USD</i>
ASSETS			
Non-current asset			
Investment in a jointly controlled entity	5	<u>10,341</u>	<u>10,341</u>
Current assets			
Trade and other receivables	6	1,292,423	953
Prepayments		8,989	8,986
Cash and cash equivalents	7	<u>171,051</u>	<u>65,768</u>
		<u>1,472,463</u>	<u>75,707</u>
Total assets		<u>1,482,804</u>	<u>86,048</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Shareholder's funds			
Share capital	8	12,251,565	12,251,565
Accumulated losses		<u>(17,566,593)</u>	<u>(15,866,129)</u>
Total shareholder's funds/(deficit)		<u>(5,315,028)</u>	<u>(3,614,564)</u>
Non-current liability			
Long-term loan	9	<u>5,300,000</u>	<u>3,700,000</u>
Current liability			
Trade and other payables	10	<u>1,497,832</u>	<u>612</u>
Total liabilities		<u>6,797,832</u>	<u>3,700,612</u>
Total equity and liabilities		<u>1,482,804</u>	<u>86,048</u>

The notes on pages 8 to 14 form an integral part of these financial statements.

Rajesh K. Shah
DIRECTOR

SUN LABORATORIES FZE**Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 March 2017**

	<i>Notes</i>	<i>2017 USD</i>	<i>2016 USD</i>
Sales		1,255,016	-
Cost of sales	11	<u>1,041,664</u>	<u>-</u>
Gross profit		213,352	-
Other income		316,867	-
Expenses			
Impairment loss	5	-	(15,811,934)
Professional, promotional and marketing expenses	11	(2,217,233)	-
Lease and license fee		(8,168)	(8,168)
Other administrative expenses		<u>(5,282)</u>	<u>(2,693)</u>
Total expenses		<u>(2,230,683)</u>	<u>(15,822,795)</u>
Loss for the year		(1,700,464)	(15,822,795)
Other comprehensive income/(loss)		<u>-</u>	<u>-</u>
Total comprehensive loss for the year		<u>(1,700,464)</u>	<u>(15,822,795)</u>

The notes on pages 8 to 14 form an integral part of these financial statements.

Rajesh K. Shah
DIRECTOR

SUN LABORATORIES FZE

Statement of Changes in Equity
for the year ended 31 March 2017

	<i>Share capital USD</i>	<i>Accumulated losses USD</i>	<i>Total USD</i>
As at 31 March 2015	12,251,565	(43,334)	12,208,231
Loss for the year	-	(15,822,795)	(15,822,795)
As at 31 March 2016	12,251,565	(15,866,129)	(3,614,564)
Loss for the year	-	(1,700,464)	(1,700,464)
As at 31 March 2017	<u>12,251,565</u>	<u>(17,566,593)</u>	<u>(5,315,028)</u>

The notes on pages 8 to 14 form an integral part of these financial statements.

Rajesh K. Shah
DIRECTOR

SUN LABORATORIES FZE

Statement of Cash Flows
for the year ended 31 March 2017

	<i>Note</i>	2017 USD	2016 USD
<u>Cash flows from operating activities</u>			
Loss for the year		(1,700,464)	(15,822,795)
Adjustment for:			
Impairment loss		-	<u>15,811,934</u>
Operating loss before working capital changes		(1,700,464)	(10,861)
Increase in trade, other receivables and prepayments		(1,291,473)	-
Increase/(decrease) in trade and other payables		<u>1,497,220</u>	<u>68</u>
Net cash from/ (used in) operating activities		<u>(1,494,717)</u>	<u>(10,793)</u>
<u>Cash flows from investing activity</u>			
Payment for investment in a jointly controlled entity (net)		-	<u>(3,770,434)</u>
Net cash from/ (used in) investing activity		-	<u>(3,770,434)</u>
<u>Cash flows from financing activity</u>			
Advance from related party		<u>1,600,000</u>	<u>3,700,000</u>
Net cash from/ (used in) financing activity		<u>1,600,000</u>	<u>3,700,000</u>
Net increase/ (decrease) in cash and cash equivalents		105,569	(81,227)
Cash and cash equivalents at the beginning of the year		<u>65,768</u>	<u>146,995</u>
Cash and cash equivalents at the end of the year	7	<u><u>171,051</u></u>	<u><u>65,768</u></u>

The notes on pages 8 to 14 form an integral part of these financial statements.

Rajesh K. Shah
DIRECTOR

SUN LABORATORIES FZE**Notes to the Financial Statements
for the year ended 31 March 2017****1. Legal status and activity**

SUN LABORATORIES FZE is a limited liability establishment incorporated in Sharjah Airport International Free Zone, Sharjah, United Arab Emirates pursuant to Emiri Decree # 2 of 1995 and in accordance with the implementation procedures of the free zone establishment. The registered address of the establishment is SAIF plus R5 – 30/B, P. O. Box 7818, Sharjah, United Arab Emirates.

The establishment is a wholly owned subsidiary of **SUN PHARMA HOLDINGS**, Mauritius. The ultimate shareholder company is **SUN PHARMACEUTICAL INDUSTRIES LIMITED**, India.

The establishment is operating under commercial license number 09137 with general trading as its licensed activity.

2. Basis of preparation*Going concern*

The establishment has incurred a loss during the year and has accumulated losses mainly due to impairment losses and expenditure incurred during the year resulting in deficit of equity funds. As of 31 March 2017, current liabilities exceed current assets. However, the financial statements have been prepared on a going concern basis. The continuation of the establishment's operation is dependent upon the continued financial support from the parent shareholder company and upon the establishment generating sufficient cash flows. The parent shareholder company has confirmed that they will continue to provide or arrange such financial support to enable the establishment to meet its obligations as they fall due.

Statement of compliance

The financial statements, have been prepared under accrual basis of accounting and in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of Sharjah Airport International Free Zone Authority.

Basis of measurement

The financial statements have been prepared under the historical cost basis.

Functional and presentation currency

The financial statements have been presented in US Dollars (USD), being the functional and presentation currency of the establishment.

Use of estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that may affect the reported amount of financial assets and liabilities, revenue, expenses, disclosure of contingent liabilities and the resultant provisions and fair values.

SUN LABORATORIES FZE**Notes to the Financial Statements
for the year ended 31 March 2017****Basis of preparation (cont'd)**

Such estimates are necessarily based on assumptions about the several factors and actual results may differ from reported amounts. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in note 4.

Application of new and revised International Financial Reporting Standards (IFRS)

The establishment adopted all applicable accounting standards and amendments which are effective for annual periods beginning on or after 1 April 2016. The establishment has not early adopted any other standard, interpretation or amendment that has been issued but are not yet effective.

3. Summary of significant accounting policies

The accounting policies, which are consistent with those used in the previous year in dealing with items that are considered material in relation to the financial statements are as follows:

Investment in jointly controlled entities

A jointly controlled entity is an entity in which the establishment has a long term equity interest and of which its financial and operating policies are under contractual arrangements jointly controlled by the establishment and other parties.

Investments in jointly controlled entities are carried in the financial statements at cost plus the establishment's share of post-acquisition results less dividends received and provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognized when, and only when, the establishment becomes a party to the contractual provisions of the instrument.

Financial assets are de-recognized when, and only when, the contractual rights to receive cash flows expire or when substantially all the risks and rewards of ownership have been transferred.

Financial liabilities are de-recognized when, and only when, they are extinguished, cancelled or expired.

Financial assets

The financial assets comprise trade and other receivables and bank balance.

Trade receivables

Trade receivables are stated at original invoice amount less a provision for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable and provided for in the accounts. Bad debts are written off when there is no possibility of recovery.

SUN LABORATORIES FZE

Notes to the Financial Statements
for the year ended 31 March 2017

Financial instruments (cont'd)

Other receivables

Other current financial asset represents refundable deposit.

Cash and cash equivalents

Cash and cash equivalents comprise bank current account that is readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

The financial liabilities comprise long term loan and trade & other payables.

Trade and other payables

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether invoiced by the supplier or not.

Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the establishment and the revenue can be reliably measured.

Sale of goods

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from services

Revenue from services rendered are recognized as per the terms of agreement/arrangement with the client.

Foreign currency transactions

Transactions in currencies other than US Dollars are converted into US Dollars at the rate of exchange ruling on the date of the transaction. Assets and liabilities expressed in other than US Dollars are translated into USD at the rate of exchange ruling at the statement of financial position date. Resulting gain or loss is taken to the statement of profit or loss and other comprehensive income.

SUN LABORATORIES FZE**Notes to the Financial Statements
for the year ended 31 March 2017****4. Significant judgment employed in applying accounting policies and key sources of estimation uncertainty****4.1 Significant judgement employed**

The significant judgement made in applying accounting policies that has the most significant effect on the amounts recognized in the financial statements is as follows:

Impairment

At each reporting date, management conducts an assessment of investments and all financial assets to determine whether there are any indications that they may be impaired. In the absence of such indications, no further action is taken. If such indications do exist, an analysis of each asset is undertaken to determine its net recoverable amount and, if this is below its carrying amount, a provision is made.

In the case of trade and other receivables, if an amount is deemed irrecoverable, it is written off to profit or loss or, if previously a provision was made, it is written off against the provision. Reversals of provisions against trade and other receivables are made to the extent of the related amounts being recovered.

4.2 Key sources of estimation uncertainty

Key assumptions made concerning the future and other key sources of estimation uncertainty at the reporting 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 as follows:

Impairment of trade receivables

An estimation of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of past time due, based on anticipated recovery rates.

5. Investment in jointly controlled entity

In accordance with joint venture agreement with MSD Human Health Holding B.V, Netherland to carry on the business in pharmaceuticals, the establishment has made contribution to MSD SUN LLC, Delaware, U.S.A. the joint venture entity in which each partner holds 50% share.

MSD SUN FZ LLC situated at Dubai Creative Clusters, United Arab Emirates, a wholly owned subsidiary of MSD SUN LLC, is carrying on the development, procurement and commercialization of pharmaceutical products.

Following Wind-Down and Dissolution Agreement dated 12 February 2016 between the parties to the Jointly Controlled Entity (JCE), losses incurred up to above date were impaired during the previous year. Furthermore, there have been no accruals made in respect of winding up costs of the JCE.

SUN LABORATORIES FZE

Notes to the Financial Statements
for the year ended 31 March 2017

	<i>2017</i> <u>USD</u>	<i>2016</i> <u>USD</u>
6. Trade and other receivables		
Trade receivables *	1,255,016	-
Advances	36,454	-
Deposit	<u>953</u>	<u>953</u>
	<u>1,292,423</u>	<u>953</u>

The establishment's average credit period is 0-90 days after which trade receivables are considered to be past due.

As at 31 March 2017, the aging of trade receivables is as under:

<i>Total</i>	<i>0-30 Days</i>	<i>31-90 Days</i>	<i>91-180 Days</i>
<u>US.\$</u>	<u>US.\$</u>	<u>US.\$</u>	<u>US.\$</u>
<i>1,255,016</i>	<i>451,337</i>	<i>-</i>	<i>803,679</i>

7. Cash and cash equivalents

This represents bank balance in current accounts with banks.

	<i>2017</i> <u>USD</u>	<i>2016</i> <u>USD</u>
8. Share capital		
Authorised, issued and paid-up:		
300 shares of AED 150,000 each (<i>converted @ 3.673</i>)	<u>12,251,565</u>	<u>12,251,565</u>

9. Long-term loan

This represents unsecured, non-interest bearing and without any repayment terms long term loan from a related party.

	<i>2017</i> <u>USD</u>	<i>2016</i> <u>USD</u>
10. Trade and other payables		
Trade payables #	1,493,073	-
Accruals	<u>4,759</u>	<u>612</u>
	<u>1,497,832</u>	<u>612</u>

Includes US \$ 1,489,636 payable to a related party on trade dealing.

11. Related parties transaction and balances

The establishment enters into transactions with parties that fall within the definition of a related party as contained in International Accounting Standard 24: Related Party Disclosures.

Related parties are the entities which possesses the ability (directly or indirectly) to conduct or exercise significant influence over the operating and financial decision of the establishment or vice versa and it is subject to common control or common significant influence.

SUN LABORATORIES FZE**Notes to the Financial Statements
for the year ended 31 March 2017****Related parties transaction and balances (cont'd)**

Related parties comprise the ultimate parent company, the parent company, party to joint business venture, the companies under common ownership and / or common management control and the directors of the establishment as under:

- Sun Pharmaceutical Industries Ltd., India – *Ultimate parent company*
- Sun Pharma Holdings, Mauritius – *Parent company*
- MSD Sun LLC, U.S.A – *Party to a joint venture/Jointly controlled entity*
- Sun Pharma Global FZE, U.A.E – *Fellow subsidiary*
- Mr. Surendra Manishanker Joshi – *Director*
- Mr. Rajesh K. Shah – *Director*
- Mr. Vishwanath Vinayak Kenkare - *Director*

During the year, significant transactions with related parties and the amounts involved are as under:

	<i>2017</i> <i>AED</i>	<i>2016</i> <i>AED</i>
Purchases of merchandise	1,041,664	-
Professional, promotional and marketing expenses	447,973	-
Impairment of investment	-	15,811,934

The establishment also receives funds from the related party to meet with working capital requirement. The year-end related parties' balances are as under:

	<i>2017</i> <i>USD</i> <i>Dr./ (Cr)</i>	<i>2016</i> <i>USD</i> <i>Dr./ (Cr)</i>
Investment in jointly controlled entity:		
Party to a joint venture/Jointly controlled entity	10,341	10,341
Loan from a related party:		
Fellow subsidiary	(5,300,000)	(3,700,000)
Trade payables		
Ultimate parent company	(1,489,636)	-

12. Financial instruments: Credit and liquidity risk exposures**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets, which potentially expose the establishment to concentrations of credit risk comprise principally of bank current accounts and trade and other receivables. The establishment's bank current account is placed with high credit quality financial institutions. There are no significant concentrations of credit risk from trade receivables within the industry in which the company operates.

SUN LABORATORIES FZE

Notes to the Financial Statements
for the year ended 31 March 2017

Financial instruments: Credit and liquidity risk exposures (cont'd)

Liquidity risk

Liquidity risk is the risk that the establishment will not be able to meet financial obligations as they fall due. The liquidity requirements are monitored on a regular basis by the parent shareholder company and the management who ensure that sufficient funds are made available to the establishment to meet commitments as they fall due.

13. Financial instruments: Fair values

The fair values of the establishment's financial assets, comprising trade and other receivables, bank balance and financial liability comprising long term loan and trade & other payables, are approximate to their carrying values.

14. Contingent liabilities and capital commitments

There were no contingent liabilities and capital commitments outstanding at the date of statement of financial position.

15. Comparative figures

Previous year's figures have been regrouped / reclassified wherever necessary to conform to the presentation adopted in the current year.

16. Approval of the financial statements

The financial statements were approved by the board of director and authorised for issue on 11 May 2017.

Rajesh K. Shah
DIRECTOR