

## **Translation Independent Auditor's Report**

June 22, 2020

The Board of Directors  
Sun Pharma Japan Ltd.

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

### **Opinion**

We have audited 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 Sun Pharma Japan Ltd. (the "Company") for the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the accompanying financial statements has been prepared in all material respects, for the fiscal year ended March 31, 2020, in accordance with 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, 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 opinion.

### **Responsibilities of Management and the Corporate Auditor for the Financial Statements**

Management is responsible for the preparation of these financial statements in accordance with 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 design and operation of 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 Company's ability to continue as a going concern and disclosing, as required by 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, matters related to going concern.

The Corporate Auditor is responsible for overseeing the Company's financial reporting process.

## **Auditor's 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 auditor's report that includes our opinion. 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 auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit as part of our risk assessment in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the financial statements are presented and the disclosures contained therein 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.

We communicate with the Corporate Auditor 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.

## **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 Auditor's Report**

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



Balance Sheet  
Sun Pharma Japan Ltd.  
As of March 31, 2020

(Million, JPY)

Assets		Liabilities	
<b>Current Assets</b>	<b>8,765</b>	<b>Current Liabilities</b>	<b>5,104</b>
Cash and Deposits	573	Trade Payable	2,079
Trade Receivable	4,515	Accounts Payable Other	312
Inter-Company Receivable	820	Accrued Expenses	410
Inventories	2,526	Income tax payable	163
Prepaid Expenses	50	Deposits received	29
Consumption tax receivable	271	Provision for Bonuses	149
Other current assets	1,262	Provision for Sales returns	62
Provision for Doubtful Accounts	△ 1,254	Short term loan	1,800
		Short term Lease Liability	97
<b>Non-Current Assets</b>	<b>2,131</b>	<b>Non-Current Liabilities</b>	<b>3,367</b>
<b>Property and Equipment</b>	<b>399</b>	Deferred Rent	3
Buildings	4	Asset Retirement Obligation	34
Leasehold Improvement	119	Provision For Pension	12
Machinery and equipment	349	Payable for contribution to DC fund	92
Office Equipment	9	Provision for MPO	1,600
Leased Assets	277	Long term Lease liability	5
Accumulated Depreciation	△ 360	Other Liabilities	1,619
<b>Intangible Assets</b>	<b>2</b>		
Software	2		
		<b>Total Liabilities</b>	<b>8,472</b>
<b>Investments and Other Assets</b>	<b>1,730</b>	<b>Equity</b>	
Security Deposits	64	Shareholder's Equity	2,425
Investments in Subsidiaries	765	Share Capital	158
Loans to Subsidiaries	900	Capital Surplus	6,532
Total Other Assets		Retained Earnings	△ 4,264
		<b>Total Equity</b>	<b>2,425</b>
<b>Total Assets</b>	<b>10,897</b>	<b>Total Liabilities and Equity</b>	<b>10,897</b>

Income Statements  
Sun Pharma Japan Ltd.

From April 1, 2019  
To March 31, 2020

(Million, JPY)

Product Sales		2576
Cost of Sales		1436
Commission		707
<b>Gross Profit</b>		1847
Selling, General and Administrative Expenses		2351
<b>Operating Profit</b>		△ 504
Non-Operating Income		
Interest Income	0	
Miscellaneous Income	2	3
Non-Operating Expenses		
Interest Expense	19	
Miscellaneous Expenses	0	19
<b>Ordinary Profit</b>		△ 520
Extraordinary Loss		
Provision for Minimum Purchase Obligation		274
<b>Profit before Income Tax</b>		△ 795
Corporate tax		164
<b>Net Income</b>		△ 959

Statements of Shareholders' Equity

Sun Pharma Japan Ltd.

From April 1, 2019

To March 31, 2020

(Million, JPY)

	Share Capital	Capital Reserve			Retained Earnings			Total Shareholders' Equity	Total Equity
		Capital Surplus	Other Capital Reserve	Total Capital Reserve	Legal Reserve	Retained Earnings brought forward	Total Retained Earnings		
Balance at March 31, 2019	158	-	-	-	-	△ 3,270	△ 3,270	△ 3,112	△ 3,112
Accumulated impact by correction of error						706	706	706	706
Balance after Retroactive Correction	158	-	-	-	-	△ 2,564	△ 2,564	△ 2,406	△ 2,406
Changes of items during the period									
Increase by Merger			6,532	6,532		△ 739	△ 739	5,792	5,792
Net Income (Loss)						△ 959	△ 959	△ 959	△ 959
Total changes of items during the period	-	-	6,532	6,532	-	△ 1,699	△ 1,699	4,832	4,832
Balance at March 31, 2020	158	-	6,532	6,532	-	△ 4,264	△ 4,264	2,425	2,425

## Notes to Financial Statements

### (Summary of Significant Accounting Policies)

#### (1) Investments

Investments in subsidiaries are stated at cost based on the moving average method.

#### (2) Inventories

Inventories for Sales and raw materials are stated at cost, costs being determined by the moving average method. When net realizable value is less than the cost, the cost is reduced to the net realizable value.

Samples are stated at cost based on the moving average method.

When net realizable value is less than the cost, the cost is reduced to the net realizable value.

Other consumables are stated based on the final purchase cost method.

#### (3) Property, Plant and Equipment

##### ① Tangible Assets

The company computes depreciation of Property, Plant and Equipment based on the straight-line method.

The estimated useful lives are as follows:

Building	17 to 22 years
Leasehold Improvements	5 to 15 years
Machinery and equipment	2 to 7 years
Office Equipment	3 to 15 years

##### ② Intangible Assets

The company computes depreciation of Property, Plant and Equipment based on the straight-line method.

Software for internal use is amortized by the straight-line method over estimated useful lives (5 years).

##### ③ Leases

Finance leases are capitalized and depreciation is computed by the straight-line basis over the period with the residual value of zero.

#### (4) Provisions

##### ① Allowance for Doubtful accounts

Specific reserve is provided for accounts receivables and loans, when necessary, based on the assessment of individual receivables.

##### ② Provision for Bonuses

Provision for Bonuses is made to the estimated amount the company plans to pay to employees.

##### ③ Provision for Sales return

Provision for Sales return is recorded for estimated returns of product sold.

##### ④ Provision for Directors' retirement allowance

Provision for Directors' retirement allowance is recorded based on estimated amount per employment contracts.

##### ⑤ Provision for Minimum Purchase Obligation

Provision for Minimum Purchase Obligation is recorded for estimated remedy costs to the supplier when the actual purchased quantities are less than the agreed minimum purchase quantities.

(5)Consumption Tax

Taxable transactions are recorded at amounts exclusive of consumption tax.

**(Reimbursement of clinical study expenses)**

Pursuant to an agreement in the Financial year FY 2019-2020, the holding company and a fellow subsidiary has agreed to reimburse the clinical study expenses incurred by the Company for the period from April 2017 to March 2019. The reimbursement receivable has been adjusted to retained earnings and accordingly retained earnings at the beginning of the year has increased by 706 million JPY.

**(Notes to Statements of Shareholders' Equity)**

(1) Types 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 A Share	1,200 1,960	—	—	1,200 1,960

**(Business Combinations)**

The company merged with Pola Pharma Inc. in January 2020.

(1) Outline of Merger

- ① Names of companies and businesses
  - a. Names of Companies
    - (Surviving company) Sun Pharma Japan Ltd.
    - (Absorbed company) Pola Pharma Inc.
  - b. Description of Business
    - Manufacturing, imports, and sales of pharmaceutical products and intermediates/APIs
- ② Date of Merger
  - January 1<sup>st</sup>, 2020
- ③ Legal Form of Merger
  - The company as a surviving company absorbed and merged with Pola Pharma Inc.
- ④ Name of Company after merger

Sun Pharma Japan Ltd.

(2) Accounting for the merger

Accounting for the merger was treated as a common control transaction in accordance with ASBJ Statement No.21 (revised on January 16, 2019) "Accounting Standard for Business Combinations" and ASBJ Guidance No.10 (revised on January 16, 2019) "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".