Lupin Japan & Asia Pacific K.K.

Unaudited Financial Statements for the Year Ended March 31, 2019

Lupin Japan & Asia Pacific K.K.

Balance Sheet
March 31, 2019

ASSETS	Thousands of Yen 2019	Thousands of Yen 2018
CURRENT ASSETS:		
Cash and cash equivalents	¥ 50,475	¥ 94,589
Receivables:		
Trade accounts (Note 6)	167,448	195,392
Prepaid expenses and other current assets	5,996	175
Total current assets	223,919	290,156
PROPERTY, PLANT AND EQUIPMENT:		
Buildings and structures	22,518	15,225
Furniture and fixtures	8,639	8,639
Others	1,637	1,637
Total	32,794	25,501
Accumulated depreciation	(4,780)	(1,519)
Net property, plant and equipment	28,014	23,982
INVESTMENTS AND OTHER ASSETS:		
Deposits	18,625	300
Deferred tax assets (Note 5)	15,684	-
Right of licence	70	109
Total investments and other assets	34,379	409
TOTAL	¥ 286,312	¥ 314,547

LIABILITIES AND EQUITY	Thousands of Yen 2019	Thousands of Yen 2018
CURRENT LIABILITIES:		
Short-term loans (Note 3 and 6)	¥ 160,000	¥ 160,000
Payables :		
Trade accounts (Note 6)	10,639	15,358
Other	28,903	26,313
Income taxes payable (Note 5)	18,153	32,815
Accrued expenses	5,456	5,720
Accrued bonus to employees	25,495	6,748
Accrued bonus to directors	34,971	78,694
Total current liabilities	283,617	325,648
NON CURRENT LIABILITIES:		
Asset Retirement Obligation	7,293	-
Deferred tax liabilities (Note 5)	-	4,207
Liability for retirement benefits	445	-
Other	229	-
Total non current liabilities	7,967	4,207
EQUITY (Note 4):		
Common stock, authorized, 300 shares; issued, 100 shares in 2018 and 2019	5,000	5,000
Retained earnings - Unappropriated	(10,272)	(20,308)
Total equity	(5,272)	(15,308)
TOTAL	¥ 286,312	¥ 314,547

See notes to financial statements.

Lupin Japan & Asia Pacific K.K. .

Statement of Income
Year Ended March 31, 2019

	Thousands of Yen	
	2019	2018
REVENUE FROM OPERATION (Note 6)	¥ 552,949	¥ 278,709
OPERATING EXPENSE		
GENERAL AND ADMINISTRATIVE EXPENSES (Note 6)	538,061	267,440
Operating Income	14,888	11,269
OTHER INCOME (EXPENSES):		
Interest and dividend income	1	0
Interest expense (Note 6)	(575)	(261)
Consumption tax gain - net	14,708	6,674
Foreign exchange gain/(loss) - net	(200)	113
Other income - net	13,934	6,526
INCOME BEFORE INCOME TAXES	28,822	17,795
INCOME TAXES (Note 5):		
Current	38,676	32,820
Deferred	(19,890)	4,207
Total income taxes	18,786	37,027
NET INCOME/(LOSS)	¥ 10,036	¥ (19,232)
	Thousands of Yen	
PER SHARE OF COMMON STOCK (Note 2):		
NET INCOME/(LOSS)	¥ 100	¥ (192)

See notes to financial statements.

Lupin Japan & Asia Pacific K.K. .

Statement of Changes in Equity
Year Ended March 31, 2019

		Thousands of Yen		
	Outstanding Number of Shares of Common Stock	Common Stock	Retained Earnings Unappropriated	Total Equity
BALANCE, APRIL 1, 2017	100	¥ 5,000	¥ (1,076)	¥ 3,924
Net income/(loss)			(19,232)	(19,232)
BALANCE, MARCH 31, 2018	100	5,000	(20,308)	(15,308)
Net income/(loss)			10,036	10,036
BALANCE, MARCH 31, 2019	100	¥ 5,000	¥ (10,272)	¥ (5,272)

See notes to financial statements.

Lupin Japan & Asia Pacific K.K.

Statement of Cash Flows
Year Ended March 31, 2019

	Thousands of Yen	
	2019	2018
OPERATING ACTIVITIES:		
Income before income taxes	¥ 28,822	¥ 17,795
Adjustments for:		
Income taxes paid	(53,339)	(5)
Depreciation and amortization	3,299	1,525
Changes in assets and liabilities:		
Decrease/(increase) in trade accounts receivable	27,944	(195,392)
Decrease/(increase) in prepaid expenses and other current assets	(5,820)	(88)
Increase/(decrease) in trade accounts payable	(4,720)	14,196
Increase/(decrease) in accrued bonus to directors	(43,723)	78,694
Increase/(decrease) in accrued bonus to employees	18,747	6,748
Other - net	3,002	32,033
Total adjustments	(54,610)	(62,289)
Net cash used in by operating activities	(25,788)	(44,494)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	-	(25,501)
Purchases of software, sales rights and other assets	-	(116)
Lease Deposit	(18,325)	(300)
Net cash used in investing activities	(18,325)	(25,917)
FINANCING ACTIVITIES:		
Increase in short-term loans - net	-	160,000
Net cash provided by financing activities	-	160,000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(44,113)	89,589
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	94,589	5,000
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 50,475	¥ 94,589

See notes to financial statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by Lupin Japan & Asia Pacific K.K. (the "Company") in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.
In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form that is more familiar to readers outside Japan.

2. SUMMARY OF ACCOUNTING POLICIES

a. ***Revenue Recognition -*** Service Recipient shall pay an arm's length price for service provider for the services. The price shall be calculated using the cost plus profit margin method. Revenue is recognized at every quarter end.

b. ***Cash and Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.

c. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

d. ***Property, Plant and Equipment -*** Property, plant, and equipment are stated at cost. Depreciation is computed by the straight-line method. The range of useful lives is from 7 to 14 years for buildings and structures, from 4 to 14 years for furniture and fixtures, and from 4 to 9 years for other.

e. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying current enacted tax laws to the temporary differences.

f. ***Bonuses -*** Bonuses to directors and employees are accrued at the year-end to which such bonuses are attributable.

g. ***Per-Share Information -*** Net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

h. ***Segment Information -*** There is only one operating segment, reportable business segment i.e. 'Rendering management services to Lupin group companies', the results of which are disclosed in the financial statements, therefore, the Company does not disclose "Segment Information".

i. ***Asset Retirement Obligation*** - In March 2008, the ASBJ issued the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard and guidance, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

j. ***Retirement and Pension Plans*** - The Company has an unfunded retirement benefit plan covering substantially all of its employees who meet eligibility requirements under the retirement allowance plan. Under the plan, employees are entitled to benefits based on level of salary, length of service, and certain other factors at the time of retirement or termination. The Comapany accounts for the liability for retirement benefits, using a simiplified method, in which the company is responsible for employees at the fiscal year end for employee self-retirement.

(Changes in presentation method) - “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018 (hereinafter, “Statement No.28”)) became applicable for the financial statements from the beginning of the current fiscal year. As a result, the Company adopted Statement No.28 and changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets are classified as part of ‘investments and other assets’. As a result, in the balance sheet of the previous fiscal year, “Deferred tax assets” of ¥ 8,759 thousand classified in “CURRENT ASSETS” were presented in “INVESTMENTS AND OTHER ASSETS” of ¥ 8,759 thousand, and offset “Deferred tax liabilities” of ¥12,966 thousand.

(Standards and guidance not yet adopted) - The following standard and guidance were issued but not yet adopted.
-“Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
-“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)
(1) Overview
The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:
Step1: Identify contract(s) with customers.
Step2: Identify the performance obligations in the contract.
Step3: Determine the transaction price.
Step4: Allocate the transaction price to the performance obligation in the contract.
Step5; Recognize revenue when (or as) the entity satisfies a performance obligation.
(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.
(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans as of March 31, 2019 consisted of the following:

	Thousands of Yen	
	2019	2018
Loan from Affiliate with interest rate 0.35909%:		
Unsecured	¥ 160,000	¥ 160,000
Short-term loans	¥ 160,000	¥ 160,000

4. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions of the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all of the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3,000 thousand.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

5. INCOME TAX

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 34.8% for the year ended March 31, 2019.

The tax effects of significant temporary differences which resulted in deferred tax assets as of March 31, 2019 is as follows:

	Thousands of Yen	
	2019	2018
Deferred tax assets:		
Accrued bonus and expenses	23,860	5,729
Asset Retirement Obligation	2,523	-
Retirement reserve	154	-
Business enterprise tax payable	1,706	3,030
Total	¥ 28,243	¥ 8,759
Deferred tax liabilities:		
Adjustment for negative goodwill	(10,084)	(12,966)
Fixed asset (ARO)	(2,475)	-
Total	¥ (12,559)	¥ (12,966)
Deferred tax assets/(liabilities) - net	¥ 15,684	¥ (4,207)

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying statements of income for the year ended March 31, 2019 was as follows:

	2019	2018
Normal effective statutory tax rate	34.8%	34.8%
Tax Addition for Permanent differences	20.9	104.2
Tax addition for Organization restructuring	-	71.0
Over (under) tax provision	9.5	-
Other - net	0	(1.9)
Actual effective tax rate	65.2%	208.1%

6. RELATED PARTY DISCLOSURES

Transactions and balances of the Company with the parent company, sister companies and its subsidiary for the year ended March 31, 2019 was as follows:

	Thousands of Yen 2019							
	Lupin Limited	Lupin Atlantis Holding S.A.	Lupin Inc.	GENERIC HEALTH PTY LTD.	Multicare Pharmaceuticals Philippines Inc.	Kyowa Pharmaceutical Industry Co., Ltd.	KYOWA CritiCare Co., Ltd.	Total
Transactions in 2019:								
Revenue	¥ 126,434	¥ 80,547	¥ 9,597	¥ 21,146	¥ 63,682	¥ 246,519	¥ 5,024	¥ 552,949
General and administrative expenses	15,399					576		15,975
Interest expense						575		575
Balance as of March 31, 2019:								
Trade accounts receivable	38,382	31,807	1,559	3,898	22,763	69,039	-	167,448
Short-term loans						160,000		160,000
Trade accounts payable	7,570					1,563		9,133

	Thousands of Yen 2018							
	Lupin Limited	Lupin Atlantis Holding S.A.	Lupin Inc.	GENERIC HEALTH PTY LTD.	Multicare Pharmaceuticals Philippines Inc.	Kyowa Pharmaceutical Industry Co., Ltd.	KYOWA CritiCare Co., Ltd.	Total
Transactions in 2018:								
Revenue	¥ 79,807	¥ 16,082		¥ 39,928	¥ 28,179	¥ 101,525	¥ 13,188	¥ 278,709
General and administrative expenses	6,017					288		6,305
Interest expense						261		261
Balance as of March 31, 2018:								
Trade accounts receivable	75,712	10,534		21,527	13,436	65,115	9,068	195,392
Short-term loans						160,000		160,000
Trade accounts payable	10,601					3,324		13,925

(SUPPLEMENTARY INFORMATION)

1. PROPERTY, PLANT AND EQUIPMENT

The changes in acquisition cost and the related depreciation by asset type for the year ended March 31, 2019, were as follows:

		Thousands of Yen									
		Acquisition Cost				Accumulated Depreciation				Total Net	
Description	Useful Life (Years)	Balance, March 31, 2018	Increase	Decrease	Balance, March 31, 2019	Balance, March 31, 2018	Increase	Decrease	Balance, March 31, 2019	Balance, March 31, 2018	Balance, March 31, 2019
Buildings and structures	7 - 14	¥ 15,225	¥ 7,293	-	¥ 22,518	¥ 764	¥ 1,668	-	¥ 2,432	¥ 14,461	¥ 20,086
Furniture and fixtures	4 - 14	8,639	-	-	8,639	570	1,222	-	1,792	8,069	6,847
Other	4 - 9	1,637	-	-	1,637	185	371	-	556	1,452	1,081
Total		25,501	7,293	-	32,794	1,519	3,261	-	4,780	23,982	28,014

2. DETAILS OF ACCRUAL

Description	Balance, March 31, 2018	Increase	Decrease	Balance, March 31, 2019
Accrued bonus to employees	¥ 6,748	¥ 25,495	¥ 6,748	¥ 25,495
Accrued bonus to directors	¥ 78,694	¥ 34,971	¥ 78,694	¥ 34,971

3. GENERAL AND ADMINISTRATIVE EXPENSES

The statement of selling, general and administrative expenses for the year ended March 31, 2019, was as follows:

		Thousands of Yen
Salaries and wages	¥	366,932
Staff welfare expenses		12,647
Rent		14,965
Rates and taxes		15,494
Entertainment		1,193
Contract labor charges		6,112
Market research expenses		12,377
Commission, brokerage and discount		1,242
Lease rent and hire charges		27,060
Postage and telephone expenses		9,239
Travelling and conveyance		25,951
Legal and professional charges		15,470
Recruitment		19,388
Repair and maintenance		3,221
Depreciation and amortization		3,299
Other expenses		3,471
Total general and administrative expenses for the year	¥	538,061

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