

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF NESHER PHARMACEUTICALS (USA) LLC,**

We have audited the accompanying financial statements of **NESHER PHARMACEUTICALS (USA) LLC**, ("the Company") which comprise the Balance Sheet as at 31<sup>st</sup> December, 2014 and the Statement of Profit and Loss for the year ended on that date and a summary of the significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company in accordance with the accounting principles and the Accounting Standards generally accepted in the respective country i.e. USA. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our broad review. We conducted the review of these financial statements in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We have not conducted any detailed audit procedures of these financial statements. However, we have carried out broad review of the certified financial statements as submitted by the management in

accordance with the preceding paragraph. We believe that our broad review of financials provides a reasonable basis for our opinion. We also believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis our audit opinion.

### **Opinion**

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in USA:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31<sup>st</sup> December, 2014;  
and
- (b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date.

### **Report on Other Legal and Regulatory Requirements**

Further to our comments in the annexure referred to above, we report that:

- (i) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) The accounts and financial statements duly prepared and certified by the Management in accordance with the accounting standards generally accepted and prevalent in USA. The accounts have been submitted to us for our review and have been appropriately verified and reviewed by us in preparing and submitting our report thereon.
- (iii) The Balance Sheet and the Statement of Profit and Loss dealt with by this Report are in agreement with the books of account.
- (iv) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements including Balance Sheet and statement of Profit and Loss dealt with by this report comply with the accounting standards generally accepted in USA.
- (v) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- a. The Company does not have any pending litigations which would impact its financial position.
- b. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
- c. Since the Company is incorporated outside India, this clause regarding reporting on amounts which were required to be transferred to the Investor Education and Protection Fund by the Company is not applicable.

For Mukesh M. Shah & Co.  
Chartered Accountants  
Firm Registration No. 106625W

Ahmedabad

Date: 14<sup>th</sup> May, 2015

Partner  
[Chandresh S. Shah]  
Membership No.: 042132

**Nesher Pharmaceuticals (USA) LLC**  
**Balance Sheet as at December 31, 2014**

Particulars	Note No.	USD – Thousands		INR – Thousands	
		As at December 31			
		2014	2013	2014	2013
<b>EQUITY AND LIABILITIES:</b>					
<b>Shareholders' Funds:</b>					
Share Capital	1	10	10	631	599
Reserves and Surplus	2	(35,203)	(23,567)	(2,219,900)	(1,412,606)
		(35,193)	(23,557)	(2,219,269)	(1,412,007)
<b>Non-Current Liabilities:</b>					
Long Term Borrowings	3	88,000	60,000	5,549,280	3,596,400
<b>Current Liabilities:</b>					
Trade Payables	4	3,828	3,955	241,394	237,063
Other Current Liabilities	5	857	15,484	54,042	928,111
		4,685	19,439	295,436	1,165,174
<b>Total</b>		<b>57,492</b>	<b>55,882</b>	<b>3,625,447</b>	<b>3,349,567</b>
<b>ASSETS:</b>					
<b>Non-Current Assets:</b>					
Fixed Assets:	6				
Tangible Assets		43,639	38,995	2,751,877	2,337,360
Intangible Assets		1,089	1,131	68,672	67,792
Capital work-in-progress		1,332	3,706	83,996	222,138
		46,060	43,832	2,904,545	2,627,290
<b>Current Assets:</b>					
Inventories	7	7,067	10,352	445,645	620,499
Cash and Bank Balances	8	384	280	24,215	16,783
Trade Receivable	9	3,136	-	197,756	-
Other Current Assets	10	845	1,418	53,286	84,995
		11,432	12,050	720,902	722,277
<b>Total</b>		<b>57,492</b>	<b>55,882</b>	<b>3,625,447</b>	<b>3,349,567</b>
<b>Significant Accounting Policies</b>	II				
<b>Notes to the Financial Statements</b>	1 to 22				

**Statement of Profit and Loss for the year ended December 31, 2014**

Particulars	Note No.	USD – Thousands		INR – Thousands	
		Year ended December 31			
		2014	2013	2014	2013
<b>REVENUE:</b>					
Revenue from Operations:	11				
Sale of Products		36,009	28,852	2,197,629	1,729,389
Other operating Revenues		945	92	57,673	5,514
Net Revenue from operations		36,954	28,944	2,255,302	1,734,903
Other Income	12	144	-	8,788	-
<b>Total Revenue</b>		<b>37,098</b>	<b>28,944</b>	<b>2,264,090</b>	<b>1,734,903</b>
<b>EXPENSES:</b>					
Cost of Materials Consumed	13	10,893	7,914	648,502	431,752
Changes in Inventories of Finished goods and Work-in-progress	14	1,983	(991)	111,691	(77,857)
Employee Benefits Expense	15	14,725	13,267	898,666	795,223
Finance Costs	16	2,231	2,446	136,158	146,613
Depreciation, Amortisation and Impairment expenses	6	3,728	3,472	227,519	208,112
Other Expenses	17	15,174	13,653	926,069	950,960
<b>Total Expenses</b>		<b>48,734</b>	<b>39,761</b>	<b>2,948,605</b>	<b>2,454,803</b>
<b>Loss for the year</b>		<b>(11,636)</b>	<b>(10,817)</b>	<b>(684,515)</b>	<b>(719,900)</b>
<b>Significant Accounting Policies</b>	II				
<b>Notes to the Financial Statements</b>	1 to 22				

As per our report of even date  
For Mukesh M. Shah & Co.,  
Chartered Accountants  
Firm Registration Number: 106625W

For Zydus Pharmaceuticals (USA) Inc.

Chandresh S. Shah  
Partner  
Membership Number: 042132  
Ahmedabad, Dated: May 14, 2015

Director & Representative

## Nesher Pharmaceuticals (USA) LLC

### I-Company overview:

Nesher Pharmaceuticals (USA) LLC (the Company) was incorporated originally by name of Zynesher Pharmaceuticals (USA) LLC on May 17, 2011 to acquire the assets and liabilities of Nesher Pharmaceuticals (USA) Inc. Subsequent to acquisition of assets and liabilities, name of the company was changed to Nesher Pharmaceuticals (USA) LLC. The company is in the business of manufacture, research and development of generic pharmaceutical products in the United States of America. The corporate office is located at Bridgton, Missouri.

### II-Significant Accounting Policies:

#### 1 Basis of Accounting:

The financial statements are prepared on the "accrual basis" of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when services are rendered and expenses reflected when costs are incurred.

#### 2 Reporting Currency Translations:

The Local accounts are maintained in local and functional currency which is "United States Dollar[USD]". These accounts have been translated in Indian Rupees considering the operation of the Company as "Non-integral operations" for holding company. The translation of Financial Statements to Indian Rupee [INR] from "USD" is performed for assets and liabilities using the exchange rates prevailing on the Balance sheet dates and for revenues and expenses using the average exchange rates for the respective periods. The gain or loss resulting from such translation is included in "Foreign Currency Translation Reserve" under Reserves and Surplus.

#### 3 Use of Estimates:

The preparation of financial statements are in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. These estimates are often based on judgments, probabilities and assumptions that management believes are reasonable but that are inherently uncertain and unpredictable. As a result, actual result could differ from those estimates. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustment, if any, to the estimates used are made prospectively based on such periodic evaluations.

#### 4 Property and Equipment:

- a Property and equipment are stated at cost less accumulated depreciation.
- b Depreciation on property and equipment is provided using the straight-line method over the estimated useful lives of the related assets.
- c The estimated useful lives of the related assets range from 3 to 39.5 years.

#### 5 Inventories:

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out (FIFO) basis. The company establishes reserves for its inventory to reflect situations in which the cost of the inventory is not expected to be recovered. In evaluating whether inventory is stated at the lower of cost or market value, management considers such factors as the amount of inventory on hand; estimated time required to sell such inventory, remaining shelf life and current and expected market conditions, including level of competition. The company records provisions for the inventory reserves as part of cost of sales.

#### 6 Revenue Recognition:

Revenues from sales of products are recognized at the time of delivery and when title and risk of loss passes to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Sales discounts are issued to customers as direct discounts at the point-of-sale indirectly or through intermediary wholesaler, known as chargebacks, or indirectly in the form of rebates. Revenues are recorded net of provisions for sales discount and returns, which are established at the time of sale, when estimated provisions for product returns, rebates and other sales allowances are reasonably determinable, and when collectibles are reasonably assured. Accruals for these provisions are presented as a direct reduction to accounts receivable and revenues.

#### 7 Research and Development Cost:

Research and development costs are expensed as incurred. These expenses include the costs of the company's own research and development efforts, as well as costs incurred in connection with the company's third party collaborations efforts.

#### 8 Income Tax:

- a The company records income tax using the asset-and-liability method.
- b Deferred tax assets and liabilities are recognized for the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets when, based on available evidence, it is not "more-likely-than-not" that a portion of the deferred tax assets will not be realized. Deferred tax assets and liabilities are measured using enacted tax rate and laws. The company's effective tax rate was 43.31% and 40.69% for years ended December 31, 2014 and 2013. The future effective income tax rate depends on various factors, such as the company's income/ (loss) before taxes, tax legislation and the geographic composition of the pre-tax income.

#### 9 Employee Benefit Plan:

The company participates in a savings plan under section 401(k) of the Internal Revenue Code covering all eligible employees. The plan provides that the company can make matching contributions, which is equivalent to the employee's contributions subject to a maximum of 5% of the gross pay of the employee. All qualifying matching contributions are 100% vested at the completion of five years of service by an employee and are subject to certain withdrawal restrictions.

#### 10 Legal Settlements and Proceedings:

The company is involved in, or has been involved in, legal proceedings that arise from the normal course of business. The company cannot predict the timing or outcome of these claims and other proceedings. Currently, the company is not involved in any arbitration and/ or other legal proceedings that it expects to have a material effect on the business, financial consolidation, results of operations or liquidity of the company. All legal cost is expensed as incurred.

**II-Significant Accounting Policies-Continued:****11 Product Liability:**

Accruals for product liability claims are recorded, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The accruals are adjusted periodically as additional information becomes available. For the year ended December 31, 2014, there were no product liability claims made by the company.

**12 Cash and cash equivalents:**

The company considers all highly-liquid investments (including money market funds) with an original maturity at acquisition of three months or less to be cash equivalents. The company maintains cash balances, which may exceed federally insured limits. The company does not believe that this results in any significant credit risk.

**13 Accounts Receivable:**

The company extends credit to clients based upon management's assessment of their credit worthiness on an unsecured basis. The company provides an allowance for uncollectible accounts based on historical experience and management evaluation of trend analysis. The allowances for uncollectible accounts as of December 31, 2014 and 2013 were USD Nil and USD Nil respectively.

**14 Sales Returns and Allowances:**

At the time of sale, the company simultaneously records estimates for various costs, which reduce product sales. These costs include estimates for price adjustment, products returns, rebates, including Medicaid rebates, prompt payment discounts and other sales allowances. In addition, the company records allowances for shelf-stock adjustments when the conditions so warrant. Estimates for sales allowances such as product returns and rebates are based on variety of factors including actual returns experience of that product or similar products, rebate arrangements for each product, and estimated sales by our wholesale customers to other third parties who have contracts with the company. Actual experience associated with any of these items may be different than the company's estimates. The company regularly reviews the factors that influence its estimates and, if necessary, makes adjustments when it believes that actual product returns, credits and other allowances may differ from established reserves.

**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

	USD – Thousands		INR – Thousands	
	As at December 31			
	2014	2013	2014	2013
<b>Note: 1-Share Capital:</b>				
Capital Contribution of a sole member	10	10	631	599
	10	10	631	599
Capital Contribution of USD 10,000/- is from Sole member Zydus Pharmaceuticals (USA) Inc., a company incorporated in the United States of America, which is a subsidiary company of Zydus International Private Limited, a company incorporated in the Republic of Ireland which is the subsidiary company of Cadila Healthcare Limited, the ultimate holding company incorporated in India.				
<b>Note: 2-Reserves and Surplus:</b>				
<b>Foreign Currency Translation Reserve: [*]</b>				
Balance as per last Balance Sheet	-	-	-	-
[Less]: Exchange Rate differences on translation to INR	-	-	(122,779)	-
	-	-	(122,779)	-
<b>Surplus in statement of Profit and Loss:</b>				
Balance as per last Balance Sheet	(23,567)	(12,750)	(1,412,606)	(692,706)
Add: Loss for the year	(11,636)	(10,817)	(684,515)	(719,900)
Balance as at the end of the year	(35,203)	(23,567)	(2,097,121)	(1,412,606)
<b>Total</b>	<b>(35,203)</b>	<b>(23,567)</b>	<b>(2,219,900)</b>	<b>(1,412,606)</b>
[*] Hitherto, the gain/ loss arising on the translation of the Financial Statements to INR was given effect into Statement of Profit and Loss. However, from the year under report, it is now included in "Foreign Currency Translation Reserve" [FCTR] under Reserves and Surplus. Consequent to this change, loss for the year [in INR conversion only] is lower by INR 122,779 Thousands, with a corresponding effect in "Reserves and Surplus".				
<b>Note: 3-Long Term Borrowings:</b>				
Unsecured loan from a related party [*]	88,000	60,000	5,549,280	3,596,400
<b>Total</b>	<b>88,000</b>	<b>60,000</b>	<b>5,549,280</b>	<b>3,596,400</b>
[*] Loan from Zydus Pharmaceuticals (USA) Inc. [ZPUI]. Interest will be paid at the end of interest period i.e. six months from the date of disbursement. Interest will be payable at 2.2% p.a. plus applicable LIBOR on outstanding amount. The loan will be repaid at the end of 36th, 48th, 60th and 72nd month from the date of disbursement, or as may be called up by ZPUI by giving notice of 30 days for repayment. ZPUI at its sole discretion can relax the repayment schedule.				
<b>Note: 4-Trade Payables:</b>				
Trade Payables	3,828	3,955	241,394	237,063
<b>Total</b>	<b>3,828</b>	<b>3,955</b>	<b>241,394</b>	<b>237,063</b>
<b>Note: 5-Other Current Liabilities:</b>				
Provision for Expenses	857	15,484	54,042	928,111
<b>Total</b>	<b>857</b>	<b>15,484</b>	<b>54,042</b>	<b>928,111</b>

**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

**Note: 6-Fixed Assets:**

**A Tangible Assets:**

	Freehold Land	Buildings	Plant and Equipment	Furniture and Fixtures	Vehicles	<b>Total</b>
	<b>US Dollar Thousands</b>					
Gross Block:						
As at December 31, 2012	3,607	12,088	25,414	946	14	<b>42,069</b>
Additions	-	2,563	1,983	-	-	<b>4,546</b>
Disposals	-	-	(15)	-	-	<b>(15)</b>
Other adjustments	-	-	-	-	-	<b>-</b>
As at December 31, 2013	3,607	14,651	27,382	946	14	<b>46,600</b>
Additions	-	6,494	1,711	-	-	<b>8,205</b>
Disposals	-	-	(11)	(3)	-	<b>(14)</b>
Other adjustments	(60)	60	-	-	-	<b>-</b>
As at December 31, 2014	3,547	21,205	29,082	943	14	<b>54,791</b>
Depreciation and Impairment:						
As at December 31, 2012	27	388	3,726	160	4	<b>4,305</b>
Charge for the year	43	309	2,830	119	2	<b>3,303</b>
Disposals	-	-	(3)	-	-	<b>(3)</b>
Other adjustments	-	-	-	-	-	<b>-</b>
As at December 31, 2013	70	697	6,553	279	6	<b>7,605</b>
Charge for the year	16	408	3,004	117	2	<b>3,547</b>
Disposals	-	-	-	-	-	<b>-</b>
Other adjustments	(32)	32	-	-	-	<b>-</b>
As at December 31, 2014	54	1,137	9,557	396	8	<b>11,152</b>
Net Block:						
As at December 31, 2013	3,537	13,954	20,829	667	8	<b>38,995</b>
As at December 31, 2014	3,493	20,068	19,525	547	6	<b>43,639</b>
<b>INR Thousands</b>						
Gross Block:						
As at December 31, 2012	195,968	656,741	1,380,743	51,396	761	<b>2,285,609</b>
Additions	-	153,626	118,861	-	-	<b>272,487</b>
Disposals	-	-	(899)	-	-	<b>(899)</b>
Other adjustments	20,236	67,814	142,572	5,307	78	<b>236,007</b>
As at December 31, 2013	216,204	878,181	1,641,277	56,703	839	<b>2,793,204</b>
Additions	-	396,329	104,422	-	-	<b>500,751</b>
Disposals	-	-	(671)	(183)	-	<b>(854)</b>
Other adjustments	7,470	62,677	88,883	2,946	44	<b>162,020</b>
As at December 31, 2014	223,674	1,337,187	1,833,911	59,466	883	<b>3,455,121</b>
Depreciation and Impairment:						
As at December 31, 2012	1,467	21,080	202,434	8,693	217	<b>233,891</b>
Charge for the year	2,577	18,521	169,631	7,133	120	<b>197,982</b>
Disposals	-	-	(180)	-	-	<b>(180)</b>
Other adjustments	152	2,177	20,902	897	23	<b>24,151</b>
As at December 31, 2013	4,196	41,778	392,787	16,723	360	<b>455,844</b>
Charge for the year	976	24,900	183,334	7,141	122	<b>216,473</b>
Disposals	-	-	-	-	-	<b>-</b>
Other adjustments	(1,767)	5,021	26,543	1,108	22	<b>30,927</b>
As at December 31, 2014	3,405	71,699	602,664	24,972	504	<b>703,244</b>
Net Block:						
As at December 31, 2013	212,008	836,403	1,248,490	39,980	479	<b>2,337,360</b>
As at December 31, 2014	220,269	1,265,488	1,231,247	34,494	379	<b>2,751,877</b>

Note: Other adjustments include adjustments on account of exchange rate translation differences.



**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

**Note: 6-Fixed Assets-Continued:**

**B Intangible Assets:**

	Brands/ Trademarks	Computer Software	<u>Total</u>
	<b>US Dollar Thousands</b>		
Gross Block:			
As at December 31, 2012	1,000	361	<b>1,361</b>
Additions	-	119	<b>119</b>
Disposals	-	-	-
Other adjustments	-	-	-
As at December 31, 2013	1,000	480	<b>1,480</b>
Additions	-	139	<b>139</b>
Disposals	-	-	-
Other adjustments	-	-	-
As at December 31, 2014	1,000	619	<b>1,619</b>
Amortisation and Impairment:			
As at December 31, 2012	94	86	<b>180</b>
Charge for the year	67	102	<b>169</b>
Disposals	-	-	-
Other adjustments	-	-	-
As at December 31, 2013	161	188	<b>349</b>
Charge for the year	67	114	<b>181</b>
Disposals	-	-	-
Other adjustments	-	-	-
As at December 31, 2014	228	302	<b>530</b>
Net Block:			
As at December 31, 2013	839	292	<b>1,131</b>
As at December 31, 2014	772	317	<b>1,089</b>
	<b>INR Thousands</b>		
Gross Block:			
As at December 31, 2012	54,330	19,613	<b>73,943</b>
Additions	-	7,133	<b>7,133</b>
Disposals	-	-	-
Other adjustments	5,610	2,025	<b>7,635</b>
As at December 31, 2013	59,940	28,771	<b>88,711</b>
Additions	-	8,483	<b>8,483</b>
Disposals	-	-	-
Other adjustments	3,120	1,780	<b>4,900</b>
As at December 31, 2014	63,060	39,034	<b>102,094</b>
Amortisation and Impairment:			
As at December 31, 2012	5,107	4,672	<b>9,779</b>
Charge for the year	4,016	6,114	<b>10,130</b>
Disposals	-	-	-
Other adjustments	527	483	<b>1,010</b>
As at December 31, 2013	9,650	11,269	<b>20,919</b>
Charge for the year	4,089	6,957	<b>11,046</b>
Disposals	-	-	-
Other adjustments	639	818	<b>1,457</b>
As at December 31, 2014	14,378	19,044	<b>33,422</b>
Net Block:			
As at December 31, 2013	50,290	17,502	<b>67,792</b>
As at December 31, 2014	48,682	19,990	<b>68,672</b>

Note: Other adjustments include adjustments on account of exchange rate translation differences.

**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

	USD – Thousands		INR – Thousands	
	As at December 31			
	2014	2013	2014	2013
<b>Note: 7-Inventories:</b>				
[The Inventory is valued at lower of cost and net realisable value]				
Classification of Inventories:				
Raw Materials	4,769	6,071	300,733	363,896
Work-in-progress	2,048	2,680	129,147	160,639
Finished Goods	250	1,601	15,765	95,964
<b>Total</b>	<b>7,067</b>	<b>10,352</b>	<b>445,645</b>	<b>620,499</b>
<b>Note: 8-Cash and Bank Balances:</b>				
Balances with Banks	384	280	24,215	16,783
<b>Total</b>	<b>384</b>	<b>280</b>	<b>24,215</b>	<b>16,783</b>
<b>Note: 9-Trade Receivables:</b>				
Others- Considered Good [Unsecured]	3,136	-	197,756	-
<b>Total</b>	<b>3,136</b>	<b>-</b>	<b>197,756</b>	<b>-</b>
<b>Note: 10-Other Current Assets:</b>				
[Unsecured, Considered good]				
Prepaid Expenses	826	1,175	52,088	70,430
Other Current Assets	19	243	1,198	14,565
<b>Total</b>	<b>845</b>	<b>1,418</b>	<b>53,286</b>	<b>84,995</b>
	USD – Thousands		INR – Thousands	
	Year ended December 31			
	2014	2013	2014	2013
<b>Note: 11-Revenue from Operations:</b>				
Sale of Pharmaceutical products	36,009	28,852	2,197,629	1,729,389
Other Operating Revenues:				
Royalty Income	103	83	6,286	4,975
Miscellaneous Income	842	9	51,387	539
Total	945	92	57,673	5,514
<b>Total</b>	<b>36,954</b>	<b>28,944</b>	<b>2,255,302</b>	<b>1,734,903</b>
<b>Note: 12-Other Income:</b>				
Rent Income	144	-	8,788	-
<b>Total</b>	<b>144</b>	<b>-</b>	<b>8,788</b>	<b>-</b>
<b>Note: 13-Cost of Materials Consumed:</b>				
Raw Materials:				
Stock at commencement	6,071	7,596	363,896	412,691
Add: Purchases	9,591	6,389	585,339	382,957
	15,662	13,985	949,235	795,648
Less: Stock at close	4,769	6,071	300,733	363,896
<b>Total</b>	<b>10,893</b>	<b>7,914</b>	<b>648,502</b>	<b>431,752</b>
<b>Note: 14-Changes in Inventories:</b>				
Stock at commencement:				
Work-in-progress	2,680	2,766	160,639	150,277
Finished Goods	1,601	524	95,964	28,469
	4,281	3,290	256,603	178,746
Less: Stock at close:				
Work-in-progress	2,048	2,680	129,147	160,639
Finished Goods	250	1,601	15,765	95,964
	2,298	4,281	144,912	256,603
<b>Total</b>	<b>1,983</b>	<b>(991)</b>	<b>111,691</b>	<b>(77,857)</b>

<b>Nesher Pharmaceuticals (USA) LLC</b>				
<b>Notes to the Financial Statements</b>				
	<b>USD – Thousands</b>		<b>INR – Thousands</b>	
	<b>Year ended December 31</b>			
	<b>2014</b>	2013	<b>2014</b>	2013
<b>Note: 15-Employee Benefit Expense:</b>				
Salaries and wages	11,639	10,432	710,328	625,294
Contribution to provident and other funds	3,042	2,793	185,653	167,412
Staff welfare expenses	44	42	2,685	2,517
<b>Total</b>	<b>14,725</b>	<b>13,267</b>	<b>898,666</b>	<b>795,223</b>
Above expenses includes Research related expenses as follows:				
Salaries and wages	2,102	1,159	128,285	69,470
Contribution to provident and other funds	421	230	25,694	13,786
<b>Total</b>	<b>2,523</b>	<b>1,389</b>	<b>153,979</b>	<b>83,256</b>
<b>Note: 16-Finance Cost:</b>				
Interest expense - on term loans	1,481	1,777	90,385	106,513
Bank commission and charges	750	669	45,773	40,100
<b>Total</b>	<b>2,231</b>	<b>2,446</b>	<b>136,158</b>	<b>146,613</b>
<b>Note: 17-Other Expenses:</b>				
Research Material	1,543	1,286	94,169	77,083
Consumption of Stores and spare parts	3,752	1,677	228,985	100,519
Power & fuel	1,610	1,562	98,258	93,626
Rent	132	132	8,056	7,912
Repairs to Buildings	236	179	14,403	10,729
Repairs to Plant and Machinery	193	263	11,779	15,764
Insurance	253	214	15,441	12,827
Rates and Taxes [excluding taxes on income]	907	1,035	55,354	62,038
Traveling expenses	148	192	9,032	11,508
Legal and professional fees	2,184	2,578	133,290	154,525
Freight and forwarding on sales	772	938	47,115	56,224
Net Loss on sale/ disposal of Fixed Assets	3	5	183	300
Exchange Rate difference due to translation [Refer Note2 (*)]	-	-	-	132,601
Miscellaneous Expenses	3,441	3,592	210,004	215,304
<b>Total</b>	<b>15,174</b>	<b>13,653</b>	<b>926,069</b>	<b>950,960</b>
Above expenses includes Research related expenses as follows:				
Research Materials	1,543	1,286	94,169	77,083
Consumption of Stores and Spares	345	245	21,055	14,685
Repairs to Building	16	15	976	899
Repairs to Plant and Machinery	72	63	4,394	3,776
Traveling Expenses	30	-	1,831	-
Legal and Professional fees	410	93	25,022	5,574
Others	417	157	25,450	9,411
<b>Total</b>	<b>2,833</b>	<b>1,859</b>	<b>172,897</b>	<b>111,428</b>
<b>Note: 18-Related Party Transactions:</b>				
<b>A Name of the Related Parties and Nature of the Related Party Relationship:</b>				
<b>a Holding Company:</b> ZyduS Pharmaceuticals (USA) Inc.				
<b>b Holding Company of Holding Company:</b> ZyduS International Private Limited				
<b>c Ultimate Holding Company:</b> Cadila Healthcare Limited, a company incorporated in India				
<b>d Fellow Subsidiaries:</b>				
Dialforhealth India Limited	ZyduS Nikkho Farmaceutica Ltda. [Brazil]			
Dialforhealth Unity Limited	ZyduS Pharma Japan Co. Ltd. [Japan]			
Dialforhealth Greencross Limited	Etna Biotech S.R.L. [Italy]			
German Remedies Limited	ZyduS Pharmaceuticals Mexico SA De CV [Mexico]			
ZyduS Wellness Limited	ZyduS Pharmaceuticals Mexico Services Company SA De C.V.[Mexico]			
Liva Pharmaceuticals Limited	ZyduS Noveltech Inc. [USA]			
ZyduS Technologies Limited	Simayla Pharmaceuticals (Pty) Ltd [South Africa]			
Biochem Pharmaceutical Industries Limited	Script Management Services (Pty) Ltd [South Africa]			
ZyduS BSV Pharma Private Limited	ZyduS Healthcare S.A. (Pty) Ltd [South Africa]			
M/s. ZyduS Healthcare, a Partnership Firm	Hercon Pharmaceuticals LLC [USA]			
M/s. ZyduS Wellness-Sikkim, a Partnership Firm	ZAHL B.V. [the Netherlands]			
ZyduS Lanka (Private) Limited [Sri Lanka]	ZAHL Europe B.V. [the Netherlands]			
ZyduS Netherlands B.V. [the Netherlands]	Bremer Pharma GmbH [Germany]			
ZyduS Healthcare (USA) LLC [USA]	ZyduS Healthcare Philippines Inc. [Philippines]			
ZyduS France, SAS [France]	ZyduS Worldwide DMCC [Dubai]			
Laboratorios Combix S.L. [Spain]	ZyduS Discovery DMCC [Dubai]			

**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

**Note: 18-Related Party Transactions-Continued:**

**B Transactions with Related Parties:**

The following transactions were carried out with the related parties in the ordinary course of business:

- a Details relating to parties referred to in items 18-A [a & c]

Nature of Transactions	Value of the Transactions [USD Thousands]			
	Holding company		Ultimate Holding company	
	Year ended December 31			
	2014	2013	2014	2013
<b>Sales:</b>				
<b>Goods:</b>				
Cadila Healthcare Limited			39	6
Zydus Pharmaceuticals (USA) Inc.	35,970	28,846		
<b>Finance:</b>				
<b>Interest Paid:</b>				
Zydus Pharmaceuticals (USA) Inc.	1,481	1,777		
<b>Bank Guarantee Commission Paid:</b>				
Zydus Pharmaceuticals (USA) Inc.	750	669		
		As at December 31		
<b>Outstanding:</b>				
<b>Payable:</b>				
Zydus Pharmaceuticals (USA) Inc.	88,000	74,045		
<b>Receivable:</b>				
Zydus Pharmaceuticals (USA) Inc.	3,136			

Nature of Transactions	Value of the Transactions [INR Thousands]			
	Holding company		Ultimate Holding company	
	Year ended December 31			
	2014	2013	2014	2013
<b>Sales:</b>				
<b>Goods:</b>				
Cadila Healthcare Limited			2,380	360
Zydus Pharmaceuticals (USA) Inc.	2,195,249	1,729,029		
<b>Finance:</b>				
<b>Interest Paid:</b>				
Zydus Pharmaceuticals (USA) Inc.	90,385	106,513		
<b>Bank Guarantee Commission Paid:</b>				
Zydus Pharmaceuticals (USA) Inc.	45,773	40,100		
		As at December 31		
<b>Outstanding:</b>				
<b>Payable:</b>				
Zydus Pharmaceuticals (USA) Inc.	5,549,280	4,669,278		
<b>Receivable:</b>				
Zydus Pharmaceuticals (USA) Inc.	197,756	-		

- b There are no transactions with the parties referred to in item no. 18 A [b & d]

**Note: 19-Segment Information:**

There is only one primary segment namely "Pharmaceutical Products".

**Note: 20-Operating Lease:**

The Company has entered into an Operating Lease for its manufacturing and warehousing requirement, lease expiring through 2016.

The future minimum rental payments under the lease agreement for the year ended December 31, 2014 and 2013 are as under:

	USD – Thousands		INR – Thousands	
	Year ended December 31			
	2014	2013	2014	2013
<b>Year</b>				
2014	-	132	-	7,912
2015	132	132	8,056	7,912
2016	132	132	8,056	7,912
<b>Total Commitments</b>	<b>264</b>	<b>396</b>	<b>16,112</b>	<b>23,736</b>
Lease payments recognised in the Statement of Profit and Loss	132	132	8,056	7,912

**Nesher Pharmaceuticals (USA) LLC**  
**Notes to the Financial Statements**

**Note: 21-Going Concern:**

The company has a negative equity of \$ 35,193 Thousand and 23,557 Thousand at the end December 31, 2014 and 2013 respectively. The going concern issue as a result of the negative equity has been mitigated by fact that the company has a positive cash flow from operating activities at the end December 31, 2014 and 2013 respectively, which is sufficient to meet its working capital requirements and debt obligations. Further, its holding company Zydus Pharmaceuticals (USA) Inc. has positive equity as at December 31, 2014.

**Note: 22**

Previous year's figures have been regrouped/ reclassified wherever necessary to correspond with the current year's classifications/ disclosure.

**Signatures to Significant Accounting Policies and Notes 1 to 22 to the Financial Statements**

As per our report of even date

For Mukesh M. Shah & Co.,

Chartered Accountants

Firm Registration Number: 106625W

For Zydus Pharmaceuticals (USA) Inc.

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

Director & Representative