

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ZYDUS PHARMACEUTICALS (USA) INC.,

We have audited the accompanying financial statements of **ZYDUS PHARMACEUTICALS (USA) INC.**, ("the Company") which comprise the Balance Sheet as at 31st 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 as these financial statements have been audited by the auditors of the Company as appointed under the Laws of the USA in accordance with the auditing standards prevalent in USA.

In accordance with the above, we have carried out broad review of the financial statements as submitted by the management and as audited by the auditors of the Company. We believe that our review 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 for 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 31st December, 2014;
and
- (b) in the case of the Statement of Profit and Loss, of the profit 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 of the Company are duly audited and certified by the Company's Statutory Auditors viz Ram Associates, USA, in accordance with the accounting and auditing standards generally accepted and prevalent in USA. The audited accounts along with auditors' report have been submitted to us for our review and have been appropriately verified and reviewed by us in preparing and submitting our report thereon. Our opinion is solely based on the report of the said independent auditors of the Company.
- (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, statement of Profit and Loss and Cash flow statements 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: 14th May, 2015

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

Zydus Pharmaceuticals (USA) Inc.
Balance Sheet as at December 31, 2014

Particulars	Note No.	USD Thousands		INR Thousands	
		As at December 31			
		2014	2013	2014	2013
EQUITY AND LIABILITIES:					
Shareholders' Funds:					
Share Capital	1	2,300	2,300	145,038	137,862
Reserves and Surplus	2	40,503	22,877	2,554,120	1,371,247
		42,803	25,177	2,699,158	1,509,109
Non-Current Liabilities:					
Long Term Borrowings	3	52,500	47,500	3,310,650	2,847,150
Current Liabilities:					
Short Term Borrowings	4	30,000	24,000	1,891,800	1,438,560
Trade Payables	5	113,241	67,124	7,140,977	4,023,413
Other Current Liabilities	6	20,730	26,637	1,307,234	1,596,622
Total		163,971	117,761	10,340,011	7,058,595
		259,274	190,438	16,349,819	11,414,854
ASSETS:					
Non-Current Assets:					
Fixed Assets:					
Tangible Assets	7	1,783	1,803	112,436	108,072
Intangible Assets		552	702	34,809	42,078
Capital works-in-progress			52	-	3,117
		2,335	2,557	147,245	153,267
Deferred Tax Assets [Net]		11,093	5,590	699,525	335,065
Non-Current Investments	8	10	10	631	599
Long Term Loans and Advances	9	90,500	76,545	5,706,930	4,588,107
		103,938	84,702	6,554,331	5,077,038
Current Assets:					
Inventories	10	56,178	49,682	3,542,585	2,977,939
Trade Receivables	11	90,154	49,407	5,685,111	2,961,456
Cash and Bank Balances	12	7,331	4,585	462,293	274,825
Short Term Loans and Advances	13	954	1,616	60,159	96,863
Other Current Assets	14	719	446	45,340	26,733
		155,336	105,736	9,795,488	6,337,816
Total		259,274	190,438	16,349,819	11,414,854
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 27				
As per our report of even date For Mukesh M. Shah & Co. Chartered Accountants Firm Registration Number: 106625W		For and on behalf of the Board			
Chandresh S. Shah Partner Membership Number: 042132 Ahmedabad, Dated: May 14, 2015		Director			

Zydus Pharmaceuticals (USA) Inc.
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
REVENUE:					
Revenue from Operations:					
Sale of Products		465,359	315,155	28,400,860	18,890,391
Other Income	16	1,645	1,916	100,394	114,845
Total Revenue		467,004	317,071	28,501,254	19,005,236
EXPENSES:					
Purchases of Stock-in-Trade	17	413,830	278,512	25,256,045	16,694,009
Changes in Inventories of Stock-in-Trade	18	(6,496)	(5,492)	(564,646)	(577,096)
Employee Benefits Expenses	19	16,044	10,173	979,165	609,770
Finance Costs	20	2,471	2,456	150,805	147,212
Depreciation, Amortisation and Impairment expenses	7	372	345	22,704	20,678
Other Expenses	21	18,582	11,801	1,134,060	762,601
Total Expenses		444,803	297,795	26,978,133	17,657,174
Profit before Tax		22,201	19,276	1,523,121	1,348,062
Less/ [Add]: Tax Expenses:					
Current Tax		10,078	4,840	615,060	290,110
Deferred Tax		(5,503)	(1,399)	(335,848)	(83,856)
		4,575	3,441	279,212	206,254
Profit for the year		17,626	15,835	1,243,909	1,141,808
			USD		INR
Basic & Diluted Earning per Common Stock	22	7.66	6.88	540.83	496.44
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 27				

As per our report of even date

For and on behalf of the Board

For Mukesh M. Shah & Co.
Chartered Accountants
Firm Registration Number: 106625W

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

Director

Zydus Pharmaceuticals (USA) Inc.

I-Organization and Description of Business:

Zydus Pharmaceuticals (USA) Inc. [the Company] is incorporated in New Jersey on November 18, 2003 and is a 100% subsidiary of Zydus International Private Limited [ZIPL]. ZIPL is a company organized under the laws of Ireland. ZIPL is a wholly owned subsidiary of Cadila Healthcare Limited, India [Zydus Cadila].

The company markets and distributes Generics and Authorised Generic pharmaceutical products in the United States of America. Most of the products are procured from Zydus Cadila except the products which are purchased from Neshier Pharmaceuticals [USA] Inc., a related party and from other unrelated parties. The corporate office of the company is located at Pennington, New Jersey which is owned by Zydus Healthcare [USA] LLC, a related party.

II-Summary of Significant Accounting Policies:

1 Basis of Accounting:

These financial statements are prepared on the "accrual basis" of accounting in conformity with accounting principles generally accepted in the United States of America. Consequently, 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 "USD". These accounts have been translated in Indian Rupees [INR] considering the operation of the Company as "Non-integral operations" for holding company. The translation of Financial Statements to INR from "USD" is performed for assets and liabilities using the exchange rate prevailing on the Balance sheet date and for revenue and expenses using the average exchange rate for the respective period. 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 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 assets and 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 of property and equipment is calculated 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 market 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, 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 of indirectly 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, including medical rebates and other sales allowances are reasonably determinable, and when collectibles is 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:

The Company records income tax using the asset-and-liability approach in which 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 period 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% and 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 subject to Federal limits. 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 condition, results of operations or liquidity of the Company. All legal cost is expensed as incurred.

Zydu Pharmaceuticals (USA) Inc.
Significant Accounting Policies-Continue

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. From time to time the Company is subject to claims arising in the ordinary course of business, including patent, product liability and other litigation. In determining whether liabilities should be recorded for pending claims, the Company assesses the allegations made and the likelihood that it will be able to defend against the claim successfully. The Company records provisions to the extent it concludes that a contingent liability is probable and the amount thereof is estimable. Because litigation outcomes and contingencies are unpredictable, and because excessive verdicts can occur, these assessments involve complex judgments about future events and can rely heavily on estimates and assumptions.

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 Company does not expect to have write-offs or adjustments to accounts receivable which would have a material adverse effect on its financial position, liquidity or results of operations.

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, product 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 a variety of factors including actual returns experience of that product or similar products, rebate arrangements for each product, and estimated sales by its 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.

15 Investments:

Long term and strategic investments are stated at cost, less any diminution in the value other than temporary.

16 Contingent Liability:

A disclosure for contingent liability is made when there is a possible obligation, that may, but probably will not require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision/ disclosure is made. Contingent assets are not recognized in the financial statements.

Zydu Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

	USD Thousands		INR Thousands					
	As at December 31							
	2014	2013	2014	2013				
Note: 1-Share Capital:								
Authorised:								
3,000,000 [as at December 31, 2013: 3,000,000] Common Stock of \$ 1/- each	3,000	3,000	189,180	179,820				
	3,000	3,000	189,180	179,820				
Issued, Subscribed and Paid-up:								
2,300,000 [as at December 31, 2013: 2,300,000] Common Stock of \$ 1/- each	2,300	2,300	145,038	137,862				
	2,300	2,300	145,038	137,862				
A There is no change in the number of shares as at the beginning and end of the year. Number of shares at the end of the year	2,300,000	2,300,000						
B The Company has only Common Stock. All Common Stock rank pari passu and carry equal rights with respect to voting and dividend. In the event of liquidation of the Company, the equity shareholders shall be entitled to proportionate share of their holding in the assets remained after distribution of all preferential amounts.								
C Equity shares of \$ 1/- each, fully paid held by Holding Company, Zydu International Private Limited, a company incorporated in the Republic of Ireland which is a subsidiary company of Cadila Healthcare Limited, the ultimate holding company, a company incorporated in India.								
Number of Shares	2,300,000	2,300,000						
% to total share holding	100%	100%						
Note: 2-Reserves and Surplus:								
Securities Premium:								
Premium on Buyback of Equity shares	(27,300)	(27,300)	(1,721,538)	(1,636,362)				
Foreign Currency Translation Reserve: [*]								
Balance as per last Balance Sheet			-	-				
[Less]: Exchange Rate differences on translation to INR			24,140	-				
			24,140	-				
Surplus in Statement of Profit and Loss:								
Balance as per last Balance Sheet	50,177	34,342	3,007,609	1,865,801				
Add: Profit for the year	17,626	15,835	1,243,909	1,141,808				
Balance as at end of the year	67,803	50,177	4,251,518	3,007,609				
Total	40,503	22,877	2,554,120	1,371,247				
[*] 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, gain for the year (on INR conversion only) is higher by INR 24,140 thousands, with a corresponding effect in "Reserves and Surplus".								
Note: 3-Long Term Borrowings:								
	USD Thousands		INR Thousands		USD Thousands		INR Thousands	
	Non-current portion				Current Maturities			
	As at December 31				As at December 31			
	2014	2013	2014	2013	2014	2013	2014	2013
Secured Term Loans from Banks	52,500	47,500	3,310,650	2,847,150	10,000	20,000	630,600	1,198,800
Amount disclosed under Note-6 "Other Current Liabilities"	-	-	-	-	10,000	20,000	630,600	1,198,800
Total	52,500	47,500	3,310,650	2,847,150	-	-	-	-
A Securities of Secured Long Term Borrowings: The loans from BNP Paribas bank, Bank of the West and HSBC Bank are secured by Corporate Guarantee of Cadila Healthcare Limited.								
B Terms of Repayment of Secured Long Term Borrowings:								
a Loan from BNP Paribas amounting to \$ 2,500 Thousands has to be repaid in eight equal half yearly installments of \$ 2,500 Thousands each starting from December 31, 2011. As of December 31, 2014 one half yearly installment of \$ 2,500 Thousands is outstanding. The Company will pay interest to the bank on the outstanding amount at a pre-fixed rate per annum plus Libor for interest period of six months.								
b The loan from Bank of the West amounting to \$ 15,000 Thousands is payable by June, 2018. The principal amount of the term loan shall be repaid in 3 equal yearly installments. The company will pay interest to the bank on the outstanding amount at a pre-fixed rate per annum plus Libor for interest period of six months.								
c The loan from HSBC Bank amounting to \$ 45,000 Thousands is payable by November, 2018. The principal amount of the term loan shall be repaid in four installments. The company will pay interest to the bank on the outstanding amount at a pre-fixed rate per annum plus Libor for interest period of six months.								
					USD Thousands		INR Thousands	
					As at December 31			
					2014	2013	2014	2013
Note: 4-Short Term Borrowings:								
Working Capital Loans from Banks [Secured] [*]	30,000	24,000	1,891,800	1,438,560				
Total	30,000	24,000	1,891,800	1,438,560				
[*] The loan is secured by Corporate Guarantee of Cadila Healthcare Limited								
Note: 5-Trade Payables:								
Trade Payables	113,241	67,124	7,140,977	4,023,413				
Total	113,241	67,124	7,140,977	4,023,413				

Zydus Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

	USD Thousands		INR Thousands		
	As at December 31				
	2014	2013	2014	2013	
Note: 6-Other Current Liabilities:					
Current Maturities of Long Term Debt [Refer Note No. 3]	10,000	20,000	630,600	1,198,800	
Provision for Expenses	10,730	6,637	676,634	397,822	
Total	20,730	26,637	1,307,234	1,596,622	
Note: 7-Fixed Assets:					
A Tangible Assets:	Plant and Equipment	Furniture and Fixtures	Computer Equipment's	Office Equipment's	Total
	USD Thousands				
Gross Block:					
As at December 31, 2012	1,652	215	137	221	2,225
Additions	16	4	24	166	210
Disposals					-
As at December 31, 2013	1,668	219	161	387	2,435
Additions		97	48	9	154
Disposals					-
As at December 31, 2014	1,668	316	209	396	2,589
Depreciation and Impairment:					
As at December 31, 2012	168	135	114	62	479
Additions	63	27	19	44	153
Disposals					-
As at December 31, 2013	231	162	133	106	632
Additions	62	25	26	61	174
Disposals					-
As at December 31, 2014	293	187	159	167	806
Net Block:					
As at December 31, 2013	1,437	57	28	281	1,803
As at December 31, 2014	1,375	129	50	229	1,783
	INR Thousands				
Gross Block:					
As at December 31, 2012	89,753	11,681	7,443	12,007	120,884
Additions	959	240	1,439	9,950	12,588
Disposals					-
Other adjustments	9,268	1,206	768	1,240	12,482
As at December 31, 2013	99,980	13,127	9,650	23,197	145,954
Additions	-	6,117	3,027	568	9,712
Disposals					-
Other adjustments	5,204	683	503	1,207	7,597
As at December 31, 2014	105,184	19,927	13,180	24,972	163,263
Depreciation and Impairment:					
As at December 31, 2012	9,127	7,335	6,194	3,368	26,024
Additions	3,776	1,618	1,139	2,637	9,170
Disposals					-
Other adjustments	943	757	639	349	2,688
As at December 31, 2013	13,846	9,710	7,972	6,354	37,882
Additions	3,784	1,526	1,587	3,723	10,620
Disposals					-
Other adjustments	847	556	468	454	2,325
As at December 31, 2014	18,477	11,792	10,027	10,531	50,827
Net Block:					
As at December 31, 2013	86,134	3,417	1,678	16,843	108,072
As at December 31, 2014	86,707	8,135	3,153	14,441	112,436

Zydus Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

Note: 7-Fixed Assets-Continue:

B Intangible Assets:	USD	INR
	Thousands	Thousands
Computer Software:		
Gross Block:		
As at December 31, 2012	1,051	57,101
Additions	163	9,770
Disposals		
Other adjustments		5,896
As at December 31, 2013	1,214	72,767
Additions	48	3,027
Disposals		
Other adjustments		3,788
As at December 31, 2014	1,262	79,582
Amortisation and Impairment:		
As at December 31, 2012	320	17,386
Additions	192	11,508
Disposals		
Other adjustments		1,795
As at December 31, 2013	512	30,689
Additions	198	12,084
Disposals		
Other adjustments		2,000
As at December 31, 2014	710	44,773
Net Block:		
As at December 31, 2013	702	42,078
As at December 31, 2014	552	34,809

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

	USD Thousands		INR Thousands	
	As at December 31			
	2014	2013	2014	2013

Note: 8-Non-Current Investments:

Long Term Investments [Valued at cost]:				
Trade Investments Equity Instruments of a Subsidiary Company [Unquoted]:				
In fully paid-up equity share of Nesher Pharmaceuticals (USA) LLC				
[1 Share of \$ 10,000/-] [Refer Note - 25]	10	10	631	599
Total	10	10	631	599

Note: 9-Long Term Loans and Advances:

Loans and Advances to Related Parties [Unsecured, Considered Good]	90,500	76,545	5,706,930	4,588,107
Total	90,500	76,545	5,706,930	4,588,107
The above amount includes Loans and Advances to Related Parties [Refer note-24 for relationship] as under:				
Zydus Healthcare (USA) LLC [Interest bearing loan]	2,500	2,500	157,650	149,850
Nesher Pharmaceuticals (USA) LLC [Interest bearing loan] [Refer Note 25]	88,000	74,045	5,549,280	4,438,257
	90,500	76,545	5,706,930	4,588,107

Note: 10-Inventories:

[The Inventory is valued at lower of cost and net realisable value]				
Stock-in-Trade	56,178	49,682	3,542,585	2,977,939
Total	56,178	49,682	3,542,585	2,977,939

Note: 11-Trade Receivables:

Outstanding for a period exceeding six months from the date they are due for payment - Considered good [Unsecured]	90,154	49,407	5,685,111	2,961,456
Total	90,154	49,407	5,685,111	2,961,456
Allowances for uncollectible accounts	Nil	Nil	Nil	Nil

Note: 12-Cash and Bank Balances:

Balances with Banks	7,331	4,585	462,293	274,825
Total	7,331	4,585	462,293	274,825

Note: 13-Short Term Loans and Advances:

[Unsecured, Considered Good]				
Others :				
Balances with Revenue Authorities	931	706	58,709	42,318
Advances recoverable in cash or in kind or for value to be received	23	910	1,450	54,545
Total	954	1,616	60,159	96,863

Note: 14-Other Current Assets:

[Unsecured, Considered Good]				
Interest Receivables	-	150	-	8,991
Prepaid Expenses	719	296	45,340	17,742
Total	719	446	45,340	26,733

Note: 15-Contingent Liabilities [to the extent not provided for]:

Severance Package	1,413	1,259	89,104	75,464
[The company has guaranteed severance package covering three months to annual salary to some of its employees respectively for 2014 and 2013 in the event the company terminates employment for reason other than cause and in case of voluntary termination of employment due to significant and adverse change to; title, current salary, mandatory relocation or change in management reporting structure.]				

Zydus Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

	USD Thousands		INR Thousands	
	Year ended December 31			
	2014	2013	2014	2013
Note: 16-Other Income:				
Interest Income [Gross]:				
From Others [Other than long term/ current investments]	1,645	1,916	100,394	114,845
Total	1,645	1,916	100,394	114,845
Note: 17-Purchase of Stock-in-Trade:				
Purchase of Stock-in-Trade	413,830	278,512	25,256,045	16,694,009
Total	413,830	278,512	25,256,045	16,694,009
Note: 18-Changes in Inventories:				
Stock-in-Trade:				
Stock at commencement	49,682	44,190	2,977,939	2,400,843
Less: Stock at close	56,178	49,682	3,542,585	2,977,939
Total	(6,496)	(5,492)	(564,646)	(577,096)
Note: 19-Employee Benefits Expense:				
Salaries and wages	14,863	9,126	907,089	547,012
Contribution to provident and other funds	302	224	18,431	13,427
Staff welfare expenses	879	823	53,645	49,331
Total	16,044	10,173	979,165	609,770
The company's contribution to the Employee Benefit Plan	711	604	43,392	36,204
Note: 20-Finance Cost:				
Interest on Term Loans	2,447	2,409	149,340	144,395
Bank commission & charges	24	47	1,465	2,817
Total	2,471	2,456	150,805	147,212
Note: 21-Other Expenses:				
Rent	336	297	20,506	17,802
Repairs to Others	273	292	16,661	17,502
Insurance	419	171	25,572	10,250
Traveling Expenses	798	497	48,702	29,790
Legal and Professional Fees	2,399	348	146,411	20,859
Exchange Rate difference due to translation [Refer Note -2 *]				55,250
Freight and forwarding on sales	7,134	6,172	435,388	369,950
Seminar, Conference and Exhibition expenses	16	16	976	959
Other marketing expenses	1,133	962	69,147	57,662
Miscellaneous Expenses [*]	6,074	3,046	370,697	182,577
Total	18,582	11,801	1,134,060	762,601
[*] Miscellaneous Expenses include:				
A Research related expenses	3,538	719	223,106	43,097
B Payment to the auditors:				
a As Auditor	50	50	3,153	2,997
b For Other Services	7	7	441	420
c Total	57	57	3,594	3,417
Note: 22-Calculation of Earnings per Equity Share [EPS]:				
The numerators and denominators used to calculate the basic and diluted EPS are:				
A Profit attributable to Shareholders	17,626	15,835	1,243,909	1,141,808
B Basic and weighted average number of Equity shares outstanding during the year	2,300,000	2,300,000	2,300,000	2,300,000
	USD		INR	
C Nominal value of equity share	1	1		
D Basic & Diluted EPS	7.66	6.88	540.83	496.44
Note: 23-Segment Information:				
There is only one segment namely "Pharmaceutical Products".				

Zydu Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

Note: 24-Related Party Transactions:

A Name of the Related Parties and Nature of the Related Party Relationship:

- a Holding Company:** Zydu International Private Limited
- b Ultimate Holding Company:** Cadila Healthcare Limited
- c Subsidiary Company:** Neshier Pharmaceuticals (USA) LLC [USA]
- d Fellow Subsidiaries:**
- | | |
|--|---|
| Dialforhealth India Limited | Zydu Lanka (Private) Limited [Sri Lanka] |
| Dialforhealth Unity Limited | Zydu Healthcare (USA) LLC [USA] |
| Dialforhealth Greencross Limited | Zydu Noveltech Inc. [USA] |
| German Remedies Limited | Hercon Pharmaceuticals LLC [USA] |
| Zydu Wellness Limited | Zydu Healthcare S.A. (Pty) Ltd [South Africa] |
| M/s. Zydu Wellness-Sikkim, a Partnership Firm | Simayla Pharmaceuticals (Pty) Ltd [South Africa] |
| Liva Pharmaceuticals Limited | Script Management Services (Pty) Ltd [South Africa] |
| Zydu Technologies Limited | Zydu France, SAS [France] |
| Biochem Pharmaceutical Industries Limited | Zydu Nikkho Farmaceutica Ltda. [Brazil] |
| Zydu BSV Pharma Private Limited | Zydu Pharma Japan Co. Ltd. [Japan] |
| M/s. Zydu Healthcare, a Partnership Firm | Laboratorios Combix S.L. [Spain] |
| Zydu Lanka (Private) Limited [Sri Lanka] | Zydu Pharmaceuticals Mexico SA De CV [Mexico] |
| Zydu Healthcare Philippines Inc. [Philippines] | Zydu Pharmaceuticals Mexico Services Company SA De C.V.[Mexico] |
| Zydu Netherlands B.V. [the Netherlands] | Etna Biotech S.R.L. [Italy] |
| ZAHL B.V. [the Netherlands] | Zydu Worldwide DMCC [Dubai] |
| ZAHL Europe B.V. [the Netherlands] | Zydu Discovery DMCC [Dubai] |
| Bremer Pharma GmbH [Germany] | |
- e Directors:**
- | | |
|--|--|
| Mr. J. D. Renner | Dr. M. R. Patel |
| Mr. P. R. Patel [Ceased to be director w.e.f. 20-Feb-2015] | Mr. S. P. Patel [Ceased to be director w.e.f. 20-Feb-2015] |
| Mr. G. N. Nayak [Ceased to be director w.e.f. 20-Feb-2015] | |
- f Enterprises significantly influenced by Directors and/ or their relatives:**
- Mahadev Management Inc. [Dr. Mahendra Patel owns 50% interest]

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 24 – A [a , b, c, d & f]

Nature of Transactions	Value of the Transactions [USD Thousands]			
	Ultimate Holding company		Subsidiary company / Fellow subsidiaries	
	2014	Year ended December 31 2013	2014	2013
Purchases:				
Services:				
Cadila Healthcare Limited	1,258	1,084		
Zydu Healthcare (USA) LLC			169	133
Mahadev Management Inc.	1,720	1,745		
Goods:				
Cadila Healthcare Limited	250,284	191,799		
Neshier Pharmaceuticals (USA) LLC			35,970	28,846
Inter Corporate Loan given				
Zydu Noveltech Inc.			3,500	1,000
Inter Corporate Loan Repaid				
Zydu Noveltech Inc.			3,500	1,070
Reimbursements:				
Reimbursement of bank Guarantee commission received:				
Neshier Pharmaceuticals (USA) LLC			750	669
Finance:				
Interest Received:				
Zydu Noveltech Inc.			13	1
Neshier Pharmaceuticals (USA) LLC			1,481	1,777
Zydu Healthcare (USA) LLC			150	150
Total	-	-	1,645	1,928
		<u>As at December 31</u>		
Outstanding:				
Payable:				
Cadila Healthcare Limited	85,123	49,934		
Neshier Pharmaceuticals (USA) LLC			3,136	-
Receivables:				
Zydu Healthcare (USA) LLC			2,500	2,500
Neshier Pharmaceuticals (USA) LLC			88,000	74,045
Total	-	-	90,500	76,545

Zydus Pharmaceuticals (USA) Inc.
Notes to the Financial Statements

Note: 24-Related Party Transactions - Continued:

Nature of Transactions	Value of the Transactions [INR Thousands]			
	Ultimate Holding company		Subsidiary company / Fellow subsidiaries	
	Year ended December 31			
	2014	2013	2014	2013
Purchases:				
Services:				
Cadila Healthcare Limited	76,776	64,975		
Zydus Healthcare (USA) LLC			10,314	7,972
Mahadev Management Inc.	104,972	104,595		
Goods:				
Cadila Healthcare Limited	15,274,833	11,496,432		
Nesher Pharmaceuticals (USA) LLC			2,195,249	1,729,029
Inter Corporate Loan given				
Zydus Noveltech Inc.			220,710	59,940
Inter Corporate Loan Repaid				
Zydus Noveltech Inc.			220,710	64,136
Reimbursements:				
Reimbursement of bank Guarantee commission received:				
Nesher Pharmaceuticals (USA) LLC			45,773	40,100
Finance:				
Interest Received:				
Zydus Noveltech Inc.			793	60
Nesher Pharmaceuticals (USA) LLC			90,426	106,513
Zydus Healthcare (USA) LLC			9,175	8,991
Total	-	-	100,394	115,564
		As at December 31		
Outstanding:				
Payable:				
Cadila Healthcare Limited	5,367,856	2,993,044		
Nesher Pharmaceuticals (USA) LLC			197,756	-
Receivables:				
Zydus Healthcare (USA) LLC			157,650	149,850
Nesher Pharmaceuticals (USA) LLC			5,549,280	4,438,257
Total	-	-	5,706,930	4,588,107

Note: 25

The Company has investment in Nesher Pharmaceuticals (USA) LLC, a subsidiary of the Company. The accumulated losses as at December 31, 2014 amounting to USD 35,203 [as at December 31, 2013: USD 23,567] Thousands has exceeded the net worth of the said entity. However having regard to the long term strategic investment, non current investments and long term loans and advances granted to the said entity are considered good and accordingly no provision for the same has been made.

Note: 26-Operating Lease:

The Company has entered into an Operating Lease for its office facility and equipment lease expiring through March 2016. The future minimum rental payments under the lease agreement for the year ended December 31, 2014 and 2013 are as under:

Year	USD Thousands		INR Thousands	
	Year ended December 31			
	2014	2013	2014	2013
2014	-	302	-	18,097
2015	321	302	19,577	18,097
2016	80	75	4,894	4,524
Total Commitments	401	679	24,472	40,718
Lease payments recognised in the Statement of Profit and Loss	336	297	20,506	17,802

Note: 27 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 27 to the Financial Statements

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

For and on behalf of the Board

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

Director