

Accountant's Report on the financial statements of the foreign subsidiary of Alkem Laboratories Ltd., on its translation in Indian currency and its presentation as per Schedule – III to the Companies Act, 2013 required for the purposes of Section 129(3) of the Companies Act, 2013 and its consolidation with the financial statements of the holding company.

To,  
The Board of Directors,  
**Alkem Laboratories Limited, India**

1. The financial statements of **M/s S & B Pharma Inc., Delaware, USA** for the year ended 31<sup>st</sup> March, 2016 (which comprises of its Balance Sheet as at 31<sup>st</sup> March, 2016, its Profit & Loss Statement and its Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information (hereinafter referred to as "the financial statements")) are prepared by its management in USA in its reporting currency in US Dollars as per the requirements of the US Laws and US GAAPs and have been audited by its auditors in USA.
2. Those financial statements are translated by the Indian management in Indian currency (INR) and is also presented in the formats and as per requirements of Schedule III to the Companies Act, 2013 for the purpose of presenting it to the shareholders of its holding company M/s Alkem Laboratories Ltd., India as per the requirements of Section 129(3) of the Companies Act, 2013 and for the purpose of its consolidation with the financial statements of the holding company.
3. Translation of these financial statements in Indian currency and its presentation as per Schedule III to the Companies Act, 2013 for the purpose of Section 129(3) of the Act and for the purpose of its consolidation with the financial statements of the holding company is the responsibility of the company's management. Our responsibility is to express an opinion on the said translation and its presentation.
4. This report is issued solely for the purpose of the requirements of Section 129(3) of the Act to present these financial statements to the shareholders of the holding company M/s Alkem Laboratories Ltd., India and for consolidation of these financial statements with the financial statements of its holding company and should not be used for any other purpose.
5. This report is not a report under Section 143 of the Companies Act, 2013 including the Companies (Auditors) Report Order, 2016, and accordingly does not include any statement on the matters specified therein.
6. We conducted our verification in accordance with the standards generally accepted in India. Those standards require that we plan and perform our work to obtain reasonable assurance about whether the financial statements are translated in Indian currency by adopting appropriate rates of foreign currency



and are prepared in the formats and in the manner required by Schedule III to the Companies Act, 2013. We believe that our verification provides a reasonable basis for our opinion.

7. We report that:

- a) The financial statements dealt with by this report are prepared from and are in agreement with the financial statements of M/s S & B Pharma Inc., Delaware, USA prepared in US currency as per US GAAP and audited by its auditors in USA for the year ended 31<sup>st</sup> March, 2016 which comprises its Balance Sheet as at 31<sup>st</sup> March, 2016, its Profit and Loss Statement and its Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory information;
- b) In our opinion, the financial statements dealt with by this report are translated from US Dollars to Indian Rupees by adopting the applicable rates of foreign currency for the year in accordance with AS-11 prescribed by Rule 7 of the Companies (Accounts) Rules, 2014 read with Companies (Accounting Standard) Rules, 2006.
- c) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the significant accounting policies and notes thereon is prepared as per the formats and in the manner required by Schedule III to the Companies Act, 2013.

For R.S.SANGHAI & ASSOCIATES  
Chartered Accountants  
Registration No. 109094W

  
**R.S.SANGHAI**

Partner

Membership No.: 036931  
Mumbai: 20<sup>th</sup> May, 2016



**S & B PHARMA, INC. dba NORAC PHARMA**  
**BALANCE SHEET AS AT 31ST MARCH, 2016**

PARTICULARS	Note No.	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
<b>I. EQUITY AND LIABILITIES</b>					
<b>(1) Shareholders' Funds</b>					
(a) Share Capital	2.1	501	32,055	501	32,055
(b) Reserves and Surplus	2.2	2,327,347	153,836,204	4,658,792	291,313,537
		2,327,848	153,868,259	4,659,293	291,345,592
<b>(2) Non Current Liabilities</b>					
(a) Long Term Borrowings	2.3	23,093,545	1,526,457,922	7,218,545	451,375,619
		23,093,545	1,526,457,922	7,218,545	451,375,619
<b>(3) Current Liabilities</b>					
(a) Short Term Borrowings	2.4	3,077,498	203,419,233	1,331,546	83,261,571
(b) Trade Payables	2.5	1,346,705	89,015,719	437,419	27,351,810
(c) Other Current Liabilities	2.6	2,745,597	181,480,942	1,283,986	80,287,645
		7,169,800	473,915,893	3,052,951	190,901,026
<b>TOTAL</b>		32,591,193	2,154,242,074	14,930,789	933,622,237
<b>II. ASSETS</b>					
<b>(1) Non Current Assets</b>					
(a) Fixed Assets					
(i) Tangible Assets	2.7	12,185,930	805,476,604	5,109,828	319,517,545
(ii) Intangible Assets		3,942,668	260,606,018	2,595,020	162,266,601
(b) Finance Cost, net of amortization		11,474	758,419	-	-
(c) Deferred Tax Asset (Net)		281,000	18,573,791	281,000	17,570,930
(d) Long Term Loans & Advance	2.8	3,004,415	198,588,527	-	-
		19,425,487	1,284,003,358	7,985,848	499,355,075
<b>(2) Current Assets</b>					
(a) Inventories	2.9	3,183,280	210,411,306	2,273,528	142,163,706
(b) Trade receivables	2.10	3,734,025	246,814,912	2,344,650	146,610,966
(c) Cash and Cash equivalents	2.11	5,899,558	389,954,294	2,028,000	126,810,840
(d) Short Term Loans and Advances	2.12	239,233	15,813,038	133,088	8,321,993
(e) Other current assets	2.13	109,611	7,245,166	165,675	10,359,658
		13,165,707	870,238,716	6,944,941	434,267,162
<b>TOTAL</b>		32,591,193	2,154,242,074	14,930,789	933,622,237

**Significant Accounting Policies**

**Notes to Accounts**

**The accompanying notes are an integral part of financial statements**

As per our attached report of even date

**For R S SANGHAI & ASSOCIATES**

Chartered Accountants

**R S SANGHAI**

Partner

Place : Mumbai

Dated : 20th May, 2016



**For and on behalf of the Board**

*Sandeep Singh*

**Sandeep Singh**  
Director

*Amit Ghare*

**Amit Ghare**  
Director

**S & B PHARMA, INC. dba NORAC PHARMA**
**STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31ST MARCH 2016**

PARTICULARS	Note No.	Year Ended 31st March 2016 USD	Year Ended 31st March 2016 Rs.	Year Ended 31st March 2015 USD	Year Ended 31st March 2015 Rs.
Revenue from operations	2.14	13,891,075	908,784,861	11,983,824	731,955,292
Other income	2.15	1,200	78,507	-	-
<b>Total Revenue</b>		<b>13,892,275</b>	<b>908,863,368</b>	<b>11,983,824</b>	<b>731,955,292</b>
Expenses:					
Cost of materials consumed		1,341,431	87,759,384	1,022,580	62,457,763
Changes in inventories of finished goods work-in-progress and Stock-in-Trade	2.16	(647,630)	(42,369,388)	(91,500)	(5,588,693)
Employee benefits expense	2.17	9,378,274	613,547,435	7,069,611	431,802,001
Finance costs	2.18	635,248	41,559,330	324,643	19,828,743
Depreciation and amortization expense		845,319	55,302,639	429,882	26,256,594
Other expenses	2.19	4,671,078	305,592,255	3,178,404	194,132,493
<b>Total expenses</b>		<b>16,223,720</b>	<b>1,061,391,655</b>	<b>11,933,620</b>	<b>728,888,902</b>
<b>Profit before exceptional and extraordinary items and tax</b>		<b>(2,331,445)</b>	<b>(152,528,287)</b>	<b>50,204</b>	<b>3,066,390</b>
<b>Profit before tax</b>		<b>(2,331,445)</b>	<b>(152,528,287)</b>	<b>50,204</b>	<b>3,066,390</b>
<b>Tax expense:</b>					
(1) Current tax		-	-	-	-
(2) Deferred tax		-	-	(211,000)	(12,887,586)
<b>Profit (Loss) for the period from continuing operations</b>		<b>(2,331,445)</b>	<b>(152,528,287)</b>	<b>(160,796)</b>	<b>(9,821,196)</b>
<b>Profit (Loss) for the period</b>		<b>(2,331,445)</b>	<b>(152,528,287)</b>	<b>(160,796)</b>	<b>(9,821,196)</b>
<b>Earnings per equity share:-</b>					
(1) Basic		(46.54)	(3,044.48)	(3.21)	(196.03)
(2) Diluted		(46.54)	(3,044.48)	(3.21)	(196.03)

**Significant Accounting Policies**
**Notes to Accounts**
**The accompanying notes are an integral part of financial statements**
**As per our attached report of even date**
**For R S SANGHAI & ASSOCIATES**
**Chartered Accountants**
**For and on behalf of the Board**
**R S SANGHAI**
**Partner**
**Place : Mumbai**
**Dated : 20th May, 2016**

**Sandeep Singh**  
**Director**

**Amit Ghare**  
**Director**



**S & B PHARMA, INC. dba NORAC PHARMA**
**CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2016**

Particulars	Year ended 31st March 2016		Year ended 31st March 2015	
	USD	Rs.	USD	Rs.
<b>A. Cash Flow from Operating activities</b>				
-Loss before Tax	(2,331,445)	(152,528,287)	50,204	3,066,390
-Adjustments for :				
-Accrued interest on loan	527,526	34,511,918	-	-
-amortization of finance cost	17,026	1,113,879	-	-
-Depreciation	845,319	55,302,639	429,882	26,256,594
- Gain on sale of Assets	20,536	1,343,511	-	-
<b>Operating Profit before Working Capital Changes</b>	<b>(921,038)</b>	<b>(60,256,341)</b>	<b>480,086</b>	<b>29,322,985</b>
-Adjustments for :				
Inventories	(909,752)	(59,517,989)	(646,132)	(39,464,843)
Trade receivables	(1,389,375)	(90,895,954)	(991,609)	(60,566,098)
Short Term Loans and Advances	(106,145)	(6,944,241)	319,742	19,529,396
Other Current Assets	56,064	3,667,831		
Long term loans and Advances	(3,004,415)	(196,555,477)		
Trade Payables	909,286	59,487,502	279,152	17,050,216
Other Current Liabilities	974,598	63,760,357	(629,206)	(38,431,027)
Payment of Finance Cost	(28,500)	(1,864,533)		
Other long term Liabilities			1,331,546	81,328,977
<b>Cash (used in) / Generated from Operations</b>	<b>(4,419,276)</b>	<b>-289,118,843</b>	<b>143,579</b>	<b>8,769,606</b>
<b>Net cash (used in) /generated from operating activities</b>	<b>(4,419,276)</b>	<b>-289,118,843</b>	<b>143,579</b>	<b>8,769,606</b>
<b>B. Cash Flow from investing activities</b>				
Proceed from Sale of Assets	25,000	1,635,555	-	-
Purchase of Fixed Assets	(9,314,605)	(609,382,037)	(675,544)	(41,261,272)
<b>Net cash (used in) /generated from investing activities</b>	<b>(9,289,605)</b>	<b>(607,746,482)</b>	<b>(675,544)</b>	<b>(41,261,272)</b>
<b>C. Cash Flow from Financing activities</b>				
Proceeds from Borrowings	15,875,000	1,038,577,623	913,614	55,802,272
Proceed from Short Term borrowing	3,000,000	196,266,638	-	-
Repayment of related party borrowing	(1,294,561)	(84,693,045)	-	-
<b>Net cash (used in) /generated from financing activities</b>	<b>17,580,439</b>	<b>1,150,151,216</b>	<b>913,614</b>	<b>55,802,272</b>
<b>Net Increase/(decrease) in cash and cash equivalents</b>	<b>3,871,558</b>	<b>253,285,891</b>	<b>381,649</b>	<b>23,310,606</b>
Cash and cash equivalents at the beginning of the year	2,028,000	126,810,840	1,812,026	108,283,050
Cash and cash equivalents at the end of the year	5,899,558	380,096,731	2,193,675	131,593,655

**Notes :**

1) Cash and cash equivalents include :


Particulars	As at 31.03.2016		As at 31.03.2015	
	USD	Rs.	USD	Rs.
Cash and Bank balances (Refer Note 2.11)	5,899,558	389,954,294	2,028,000	126,810,840
Exchange difference (Unrealised (Gain) / Loss)		(9,857,563)	-	4,782,815
<b>Total</b>	<b>5,899,558</b>	<b>380,096,731</b>	<b>2,028,000</b>	<b>131,593,655</b>

2) The Cash Flow Statement has been prepared under the "Indirect Method" as set out in the Accounting Standard (AS-3) "Cash Flow Statement".

 As per our attached report of even date  
 For **R S SANGHAI & ASSOCIATES**  
 Chartered Accountants

For and on behalf of the Board

**R S SANGHAI**  
 Partner  
 Place : Mumbai  
 Dated : 20th May, 2016

  
**Sandeep Singh**  
 Director

  
**Amit Ghare**  
 Director

## NOTE – 1 SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared solely for the purposes of consolidation by the holding company, Alkem Laboratories Ltd.

### 1.1 Principal Business Activities:-

S&B Pharma, Inc. dba Norac Pharma (the Company) purchased substantially all of the assets and liabilities of a division of Norac Inc. at the end of business on December 31, 2012. The Company is a California-based pharmaceutical Company, primarily engaged in research and development, and manufacturing of active pharmaceutical ingredients and intermediates.

### 1.2 Reclassifications:-

Certain amounts in prior periods have been reclassified to conform to the current year presentation. Such reclassifications did not have a material effect on the Company's financial condition or results of operations as previously reported.

### 1.3 Use of Estimates:-

The preparation of the financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. The most significant estimates relate to percentage-of-completion method of accounting for service contracts, and the fair value of long lived assets, intangible assets and goodwill. Actual results could differ from those estimates.

### 1.4 Goodwill:-

The company accounts for goodwill in accordance with accounting guidance which requires that the goodwill be tested for impairment annually if events and circumstances indicate that the fair value of an asses has decreased below its carrying value.

### 1.5 Cash and Cash Equivalents:-

The Company considers all highly liquid securities purchased with original maturities of three months or less to be cash equivalents.

### 1.6 Accounts Receivable:-

Accounts receivable consist primarily of amounts due from customers, and are recorded at face value and reflect management's best estimate of the amount of receivables that will actually be collected. As March 31, 2016, management believes that all outstanding accounts receivable are recoverable, and therefore no allowance for doubtful accounts was recorded for the Year ended March 31, 2016.



**1.7 Inventories:-**

Raw materials are stated at the lower of cost or market and determined by the first-in, first-out method (FIFO). Work-in-progress and finished goods are stated at the lower of cost or market and determined using the average cost method.

**1.8 Fixed Assets: -**

Fixed assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the related assets, ranging from 5 to 31.5 years.

**1.9 Revenue Recognition: -**

The Company recognizes revenues and related cost of revenues based upon shipping terms when the earnings process is complete. Due to the timing of the release of inventory shipments as specified by customers, revenue can vary from period to period

Revenues from service contracts are recognized on the percentage-of-completion method, measured by the proportion of payroll costs incurred to date to estimated total payroll costs for each service contract. This method is used because management considers costs incurred to be the best available measure of progress on contracts in process. Differences between the timing of billings and the recognition of revenue on uncompleted contracts are recognized as either unbilled accounts receivable or billings in excess of costs and earnings. Revenues for reimbursable out-of-pocket expenses are recognized as incurred.

The costs of service contracts include all direct material and labor costs, as well as manufacturing overhead, related to contract performance. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which the revisions are determined.

Proceeds received in advance for production projects are recorded as billings in excess of cost and earnings.

**1.10 Risks and Uncertainties:-**

The Company manufactures pharmaceutical ingredients. Some of these products require special care in their manufacture and storage, and can be hazardous to structures and personnel if not handled correctly. Management believes these hazards have been mitigated through plant design and continuous safety programs of its environment, health and safety department. Management believes that the Company is adequately insured for losses

**1.11 Presentation of Sales Taxes:-**

The state imposes a sales tax on all of the Company's sales to non-exempt customers. The Company collects sales tax from customers and remits the entire amount to the taxing jurisdiction. The Company's accounting policy is to exclude



the tax collected and remitted to the taxing jurisdiction from revenue and cost of sales.

**1.12 Income Taxes:-**

The Company accounts for income taxes pursuant to the asset and liability method which requires deferred tax assets and liabilities to be computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

**1.13 Translation to Indian Rupees: -**

The local accounts are maintained in local and functional currency, which is the **USD**. The financial statements have been translated to Indian Rupees considering the operations of the Company as "**Non integral operations**" for the parent company on the following basis –

- i) All income and expenses are translated at the average rate of exchange prevailing during the period.
- ii) Monetary assets and liabilities are translated at the closing rate on the Balance sheet date.
- iii) Non-monetary assets and liabilities are translated at closing rate.
- iv) The resulting exchange difference is accounted in 'Exchange Difference on Translation Account' and is charged/credited to the Foreign Currency Translation Reserve.





**S & B PHARMA, INC. dba NORAC PHARMA**  
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2016**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
<b>NOTE 2.1 : SHARE CAPITAL</b>				
<b>(A) Authorised, Issued, Subscribed and paid - up share capital and par value per share</b>				
<b>AUTHORISED SHARE CAPITAL :</b>				
500000 Equity Shares of USD 0.01/- each (Previous Year 50,0000 Equity Shares of USD 0.01/- each)	5,000	3,200,055	5,000	3,200,055
	5,000	3,200,055	5,000	3,200,055
<b>ISSUED, SUBSCRIBED &amp; PAID-UP :</b>				
50,100 Equity Shares of USD 0.01/- each (Previous Year 50,100 Equity Share of USD .01/- each)	501	32,055	501	32,055
	501	32,055	501	32,055

**(B) Reconciliation of Number of equity shares outstanding at the beginning and at the end of the year**

Particulars	As at 31st March 2016	As at 31st March 2015
Numbers of Shares Outstanding as at the beginning of the year	50,100	100
Shares issued during the year	-	50,000
shares bought back during the year	-	-
<b>Numbers of Shares Outstanding as at the Closing of the year</b>	<b>50100</b>	<b>50100</b>

**(C) Shares In Company held by each shareholder holding more than 5% Shares**

Name of the shareholder	As at 31st March 2016		As at 31st March 2015	
	Number of Shares	Percentage	Number of Shares	Percentage
Alkem Laboratories Ltd.	50,100	100%	50,100	100%
<b>Total</b>	<b>50,100</b>	<b>100%</b>	<b>100</b>	<b>100%</b>

**NOTE 2.2 : RESERVES AND SURPLUS**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
<b>Share Premium Reserve</b>	<b>5,499,599</b>	<b>300,660,950</b>	<b>5,499,599</b>	<b>300,660,950</b>
<b>Foreign Currency Reserve</b>				
As per last Balance Sheet	-	31,153,849	-	18,025,940
Exchange Gain/Loss During the year	-	15,050,954	-	13,127,909
Closing Balance	-	46,204,803	-	31,153,849
<b>Surplus in Statement of Profit and Loss</b>				
As per last Balance Sheet	(840,807)	(40,501,262)	(680,011)	(30,680,066)
Profit and Loss of Current Year	(2,331,445)	(152,528,287)	(160,796)	(9,821,190)
Profit available for appropriation	(3,172,252)	(193,029,549)	(840,807)	(40,501,262)
<b>Balance carried to balance sheet</b>	<b>2,327,347</b>	<b>153,836,204</b>	<b>4,658,792</b>	<b>291,313,537</b>

**NOTE 2.3: LONG TERM BORROWING**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Loans Payable - Related Party	7,218,545	477,137,884	7,218,545	451,375,619
Loan from citibank	15,875,000	1,049,320,038	-	-
	<b>23,093,545</b>	<b>1,526,457,922</b>	<b>7,218,545</b>	<b>451,375,619</b>

**Notes:**

- The Company has two credit facilities with its Parent company that require interest to be accrued as follows:  
5% per annum on \$6,304,931 (Rs 416,749,004) of the outstanding balance owed and 9% per annum on the remaining \$913,614 Rs 60,388,880)  
Currently no principal payments are required. Interest accrued and not paid as at 31st March 2016 and 2015 is \$1,039,793 (Rs.68,729,174) and 641,232 (Rs 42,384,730) respectively
- \$5,950,000 (Rs. 393,288,455) due and payable on 30th April 2018. Quarterly interest only payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate.
- \$9,925,000 (Rs. 656,031,583) due and payable on 20th September 2018. Quarterly interest only payments are required at a variable rate equal to 1.6 percentage points over the LIBOR rate.



**S & B PHARMA, INC. dba NORAC PHARMA**  
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2016**

**NOTE 2.4: SHORT TERM BORROWING**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Loan from citibank (Note 1)	3,000,000	198,296,700	-	-
Loans Payable - Related Party (Note 2)	-	-	1,000,000	62,530,000
Insurance loan Payable	77,498	5,122,533	36,985	2,312,672
Due to Related Party (Note 3)	-	-	294,561	18,418,899
	3,077,498	203,419,233	1,331,546	83,261,571

**Notes:**

1. \$3,000,000 (Rs.198,296,700) due and payable on 30th April, 2016. Quarterly interest only payments are required at a variable rate equal to 1.6 % points over the LIBOR Rate
2. This is a short term loan payable to Alkem laboratories, Ltd. with no stated interest rate
3. This is a short term loan payable to ThePharmaNetwork, LLC. with no stated interest rate

**NOTE 2.5: TRADE PAYABLES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Total outstanding due to creditors other than micro enterprises & small enterprises	1,346,705	89,015,719	437,419	27,351,810
	1,346,705	89,015,719	437,419	27,351,810

**NOTE 2.6: OTHER CURRENT LIABILITIES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Accrued Expenses	799,321	52,834,239	350,420	21,911,763
Accrued Interest on due to related party	1,039,793	68,729,174	641,232	40,096,237
Pension Payable	79,974	5,286,193	80,902	5,058,802
Interest Accrued but not due on borrowings	88,452	5,846,580	-	-
Advance from customers	533,459	35,261,053	-	-
Billing in excess of cost and earning	204,598	13,523,703	211,432	13,220,843
	2,745,597	181,480,942	1,283,986	80,287,645

**NOTE 2.8: LONG TERM LOANS & ADVANCES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Deposit on equipment	3,004,415	198,588,527	-	-
	3,004,415	198,588,527	-	-

**NOTE 2.9: INVENTORIES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Raw and Packing Materials	1,076,945	71,184,880	814,823	50,950,882
Finished Goods	326,890	21,607,069	142,705	8,923,344
Work in Progress	1,779,445	117,619,357	1,316,000	82,289,480
	3,183,280	210,411,306	2,273,528	142,163,706



S & B PHARMA, INC. dba NORAC PHARMA  
Note No. 2.7 Fixed Assets Schedule

PARTICULARS	Amount in USD					
	Gross Block			Depreciation and Amortisation		
	As at 1st April 2015	Additions	Deletion	As at 30 March 2016	As at 1st April 2015	For the period Deletion
Tangible Assets						
Machinery & Equipments	2,161,532	3,565,312	51,000	5,675,844	585,485	608,749
Computer & Office Equipments	89,050	378,091	-	467,141	38,696	65,706
Furniture & Fixture	171,390	85,782	-	257,172	56,532	33,362
Leasehold Land	812,758	1,042,398	-	1,855,156	-	-
Leasehold Building	2,747,366	2,895,373	-	5,642,739	191,554	137,501
	5,982,096	7,966,956	51,000	13,888,052	872,267	845,318
Intangible Assets						
Goodwill	2,595,020	1,347,648	-	3,942,668	-	-
	2,595,020	1,347,648	-	3,942,668	-	-
	8,577,116	9,314,604	51,000	17,840,720	872,267	845,318
Grand Total						

Amount in INR

PARTICULARS	Amount in INR					
	Gross Block			Depreciation and Amortisation		
	As at 1st April, 2015	Additions	Deletion	Translation	As at 31 March 2016	As at 1st April 2015
Tangible Assets						
Machinery & Equipments	135,472,917	233,250,599	3,336,533	9,780,051	375,167,044.97	37,302,759
Computer & Office Equipments	5,568,297	24,735,550	-	573,660	30,877,506.24	2,372,890
Furniture & Fixture	10,717,017	5,612,048	-	669,721	16,998,786.31	3,454,783
Leasehold Land	50,821,732	68,195,983	-	3,606,028	122,623,743.83	11,949,136
Leasehold Building	171,792,792	189,421,708	-	11,764,337	372,978,836.92	183,588
Vehicle	407,946	-	407,946	-	-	55,263,156
	374,780,701	521,215,888	3,744,479	26,393,807	918,645,918	55,263,156
Intangible Assets						
Goodwill	162,266,601	88,166,114	-	10,173,303	260,606,018	-
	162,266,601	88,166,114	-	10,173,303	260,606,018	-
	537,047,302	609,382,002	3,744,479	36,567,110	1,179,251,936	55,263,156
Total						



S & B PHARMA, INC. dba NORAC PHARMA  
NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2016  
**NOTE 2.10: TRADE RECEIVABLES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
<u>Outstanding for a period exceeding six months from date they become due for payment</u>				
Unsecured, considered good	1,730,050	114,354,402	-	-
<u>Other Trade Receivable</u>				
Unsecured, considered good	2,003,975	132,460,510	2,344,650	146,610,965
	3,734,025	246,814,912	2,344,650	146,610,965

**NOTE 2.11: CASH AND CASH EQUIVALENTS**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
(a) Balance with Bank				
Current Account	5,899,558	389,954,294	2,028,000	126,810,840
	5,899,558	389,954,294	2,028,000	126,810,840

**NOTE 2.12 SHORT TERM LOANS AND ADVANCES**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Prepaid Expenses	239,233	15,813,038	133,088	8,321,993
	239,233	15,813,038	133,088	8,321,993

**NOTE 2.13 : OTHER CURRENT ASSET**

Particulars	As at 31st March 2016 USD	As at 31st March 2016 Rs.	As at 31st March 2015 USD	As at 31st March 2015 Rs.
Asset not in Service	98,606	6,517,748	165,675	10,359,658
Security Deposit	11,005	727,418	-	-
	109,611	7,245,166	165,675	10,359,658

**NOTE 2.14 : REVENUE FROM OPERATIONS**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year End 31st March 2015 USD	Year End 31st March 2015 Rs.
Sale of Product	13,919,580	910,649,721	11,983,824	731,955,292
Less : Discounts, rebates and chargebacks	(28,505)	(1,864,860)	-	-
<b>Net Sales</b>	13,891,075	908,784,861	11,983,824	731,955,292
	13,891,075	908,784,861	11,983,824	731,955,292

**NOTE 2.15 : OTHER INCOME**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year ended 31st March 2015 USD	Year ended 31st March 2015 Rs.
Miscellaneous income	1,200	78,507	-	-
	1,200	78,507	-	-





**S & B PHARMA, INC. dba NORAC PHARMA**  
**NOTES FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH 2016**

**NOTE 2.16 : CHANGES IN INVENTORIES OF FINISHED GOODS WORK-IN-PROGRESS AND STOCK-IN-TRADE**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year ended 31st March 2015 USD	Year ended 31st March 2015 Rs.
Opening Stock :				
Work in process	1,316,000	82,289,480	1,067,052	63,764,893
Finished Goods	142,705	8,923,344	300,153	17,936,543
	1,458,705	91,212,824	1,367,205	81,701,436
Less : Closing Stock :				
Work in process	1,779,445	117,619,357	1,316,000	82,289,480
Finished Goods	326,890	21,607,069	142,705	8,923,344
	2,106,335	139,226,426	1,458,705	91,212,824
Effect of Foreign Exchange translation on movement of inventory		(5,644,213)		3,922,695
Decrease in stocks of finished goods (includes traded goods & Work in process)	(647,630)	(42,369,388.48)	(91,500)	(5,588,693)

**NOTE 2.17 : EMPLOYEE BENEFIT EXPENSES**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year ended 31st March 2015 USD	Year ended 31st March 2015 Rs.
Salaries, Wages and Bonus	8,317,527	544,151,019	7,031,103	429,449,986
Welfare Expenses	1,060,747	69,396,416	38,508	2,352,015
	9,378,274	613,547,435	7,069,611	431,802,001

**NOTE 2.18 : FINANCE COST**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year ended 31st March 2015 USD	Year ended 31st March 2015 Rs.
Interest Expenses	635,248	41,559,330	324,643	19,828,743
	635,248	41,559,330	324,643	19,828,743

**NOTE 2.19: OTHER EXPENSES**

Particulars	Year End 31st March 2016 USD	Year End 31st March 2016 Rs.	Year ended 31st March 2015 USD	Year ended 31st March 2015 Rs.
Office expenses	127,106	8,315,556	92,662	5,659,666
Professional Fees	865,249	56,606,504	125,409	7,659,807
Research & Development Expenses	320,480	20,966,526	1,464,329	89,439,177
Rates & Taxes	144,838	9,475,622	56,590	3,456,438
Rent	35,608	2,329,554	11,010	672,475
Utilities	654,149	42,795,875	343,437	20,976,654
Repairs and maintenance	591,120	38,672,378	348,812	21,304,952
Insurance	212,426	13,897,379	199,459	12,182,678
Licenses and Fees	489,105	31,998,331	150,228	9,175,717
Commissions	50,928	3,331,822	126,241	7,710,625
Distribution and logistics	39,481	2,582,934	2,850	174,074
Marketing	-	-	11,943	729,462
Telephone	47,002	3,074,975	32,650	1,994,217
Traveling and lodging	94,945	6,211,512	40,573	2,478,142
Miscellaneous	279,713	18,299,443	71,855	4,388,803
Computer maintenance	112,672	7,371,252	100,356	6,129,606
Clinical & Analytical	62,246	4,072,271	-	-
Consumption of Stores & Spares	483,224	31,613,566	-	-
Advertisement & Sales Promotion	3,320	217,202	-	-
Bank Charges	57,466	3,759,553	-	-
	4,671,078	305,592,255	3,178,404	194,132,403



The Company was incorporated on 25<sup>th</sup> January 2012 in USA under the Corporations Act Its core business is to sale and distribution of pharmaceutical products throughout USA and to provide marketing services. The Company is a subsidiary of Alkem Laboratories Ltd. (India)

The Company has a five-year supply commitment, expiring in December 2016, with a customer to exclusively manufacture and supply a pharmaceutical product at a predetermined selling price and a minimum annual production quantity. The agreement contains several production covenants. In the event that the Company is not in compliance with the covenants, the Company is required to reimburse the customer for all out-of-pocket expenses associated with the noncompliance up to a predetermined amount. As of March 31, 2016, the Company was in compliance with the covenants.

The Company sponsors a 401(k) profit sharing plan that covers eligible employees. The profit sharing portion of the plan provides for contributions to eligible employees based on 6% of total compensation. For the year ended March 31st, 2016 and 2015 the company's contribution to the plan were USD 292,623 (INR.19,144,044) and US 305,528 ( INR.18,661,223). Of these amounts, \$79,974 (INR 5,286,193) and \$80,902 (INR 5,347,533) were accrued and not paid as 31<sup>st</sup> March 2016 and 2015 respectively.

The 401(k) portion of the plan provides for voluntary salary deferrals for eligible employees. Matching Company contributions are at the discretion of management; none were made for Year ended March 31, 2016.

As of March 31, 2016, the Company's deferred tax assets and liabilities consisted of the effects of temporary differences attributable to the following:

Deferred tax liabilities	2016		2015	
	USD	Rs.	USD	Rs.
Depreciation	(934,000)	(61,736,373)	(285,000)	17,821,050
Goodwill	(240,000)	(15,863,736)	(138,000)	86,29,440
<b>Total deferred tax</b>				

liabilities (B)	(1,174,000)	(77,600,109)	(423,000)	(26,450,190)
Net Deferred tax asset (A-B)	281,000	18,573,791	281,000	17,570,930

**2.24 Research and Development Costs: -**

Research and experimental costs related to both future and present products are expensed as incurred. For year ended March 31, 2016 and March 31 2015, research and development costs were \$320,480 (INR 20,966,510) and \$ 1,360,816 (INR.83, 116,747).

**2.25 Commitment: -**

As at 31<sup>st</sup> March 2016, the company ordered \$6,556,202 (INR. 433,357,740) of equipment for which it has paid \$3,004,415 (INR 198,588,527), with a remainder balance due of \$3,551,787 (INR 234,769,214).

**2.26 Related Party Disclosures, as required by Accounting Standard 18 (AS-18) are given below:****a) Names of Related parties and description of relationship: -****i) Company whose control exists:**

- a. Alkem Laboratories Limited (Holding Company)

**ii) Fellow Subsidiaries**

Alkem Laboratories (NIG) Limited	Nigeria
Alkem Laboratories (PTY) Limited	South Africa
Alkem Pharma GmbH	Germany
Alkem Laboratories Corporation	Philippines
S & B Holdings B.V.	Netherlands
Pharmacor Pty Limited	Australia
ThePharmanetwork, LLC	United States of America
Ascends Laboratories SDN BHD.	Malaysia
Enzene Biosciences Ltd.	India
Alkem Laboratories Korea Inc	Korea
Pharmacor Ltd.	Kenya
Ascend Laboratories SpA.	Chile
The PharmaNetwork, LLP	Kazakhstan
Ascend Laboatories, LLC	United States of America
Ascend Laboratories (UK) Limited	United Kingdom
Cachet pharmaceuticals Private Ltd	India
Indchemie Health Specialities Private Ltd	India
Alkem real estate LLP( upto 11Sept 2015)	India

- iii) Key Management Personnel : Mr. Sandeep Singh ( Director)  
: Mr. Amit Ghare ( Director)



## b) Transactions with the related parties:

Sr. No	Transaction	Holding Company		Fellow Subsidiary	
		USD	Rs	USD	Rs
1.	Sales	3,364,214 (9,94,671)	220,094,323 (60,753,112)	-	-
2.	Interest Expenses	398,561 (323,894)	26,074,742 (19,782,992)	-	-
3.	Loan Taken (Short term Borrowing)	- (913,614)	- (57,128,283)	- (1,000,000)	- (62,530,000)
4	Repayment of Loan taken	- (656,300)	- (40,085,885)	1,000,000 (-)	65,422,213 (-)

## c) Out of the above items transactions in excess of 10% of the total related party transactions are as under :

Sr. No	Transactions	Related Party Relation	For year ended 31.03.2016		For year ended 31.03.2015	
			USD	Rs	USD	Rs
1.	Sales (Alkem Laboratories Ltd)	Ultimate Holding Company	3,364,214	220,094,323	994,671	60,753,112
2.	Interest Expenses (Alkem Laboratories Ltd)	Ultimate Holding Company	398,561	26,074,742	323,894	19,782,992
3.	Loan Taken (Alkem Laboratories Limited )	Ultimate Holding Company	-	-	913,614	57,128,283
4.	Loan Taken (Short term) (THEPHARMA NETWORK LLC	Fellow Subsidiary	-	-	1,000,000	62,530,000
5.	Repayment of Loan (THEPHARMA NETWORK LLC	Fellow Subsidiary	1,000,000	65,422,213	6,56,300	40,085,885





## d) Balances due from / to the related parties:

Sr. No	Particulars	As on 31.03.2016	
		USD	Rs
1.	Trade Receivable (Holding Company)	- (126,912)	- (7,935,807)
2.	Long Term Borrowing (Holding Company)	7,218,545 (7,218,545)	477,137,884 (451,375,619)
3.	Interest Payable (Holding Company)	1,039,793 (641,232)	68,729,174 (40,096,237)
4.	Short Term Borrowing (Fellow Subsidiary)	- (1,000,000)	- (62,530,000)
5.	Due from Related Party (Holding Company)	1,473,801 (421,473)	97,416,625 (26,354,707)
6	Due to Related Party (Holding Company)	- (294,561)	- (18,418,899 )

## Note: -

- Figures in brackets are for previous year.
- Related Party relationship is as identified by the company and relied upon by the Auditor.

## 2.27: Earnings per share are calculated as follows:-

Particulars	For the year ended 31 March 2016.  USD	For the year ended 31 March 2016.  INR.	For the Year ended 31 March 2015.  USD	For the year ended 31 March 2015.  INR.
Net profit/(loss) after tax attributable to Equity Shareholders	(2,331,445)	(152,528,287)	(160,796)	(9,821,196)
Weighted average number of Equity Shares (No.)				
-Basic	50100	50100	100	100
-Diluted	50100	50100	100	100
Earnings per Share				
* -Basic	(46.54)	(3,044.48)	(1,607.96)	(98,211.96)
** -Diluted	(46.54)	(3,044.48)	(1,607.96)	(98,211.96)



2.28: The books of accounts are maintained by the Company in USD and converted into Indian Rupees in accordance with the accounting policy stated in note 1.13 above.

2.29: Average exchange rate for year ended on 31<sup>st</sup> March 2016 considered for the purpose of translation as referred in note no. 1.13 (i) is Rs.65.42221 (Rs.61.0786)

Closing exchange rate as on 31 March 2016 considered for the purpose of translation as referred in note no. 1.13 (ii) is Rs.66.0989/1USD (Rs. 62.5300/1USD)

2.30 **Subsequent Events:**

The Company has evaluated subsequent events through 29th April 2016 which is the date the financial statements were available to be issued.

On 15th April 2016 the Board of Directors adopted a resolution converting \$7,218,090 (INR.477,107,809) of the parent shareholder's loan into 5,706 shares of the Company's common stock, par value \$.01 per share with a share premium of \$7,218,032.94 (INR.477,1040,338). In addition to the loan conversion, the parent shareholder intends to make an equity investment in the amount of \$15,999,720 (INR1,057,563,892) in exchange for 12,648 shares issued with a premium of \$15,999,593.52 (INR.1,057,555,532), of which \$10,000,000 (INR 660,989,000) was contributed on April 25, 2016.

On April 27, 2016, the Company repaid the Citibank credit line \$3,000,000 (INR 198,296,700) outstanding balance which was due on April 30, 2016.

2.31: Previous year figures have been regrouped wherever necessary to correspond with the figures of the current year.

Signature to Notes 1.1 to 2.31

As per our attached report of even date

**For R S Sanghai & Associates**

Chartered Accountant



**R S Sanghai**

Partner

Place: Mumbai

Date: 20<sup>th</sup> May, 2016



**For and on behalf of the Board**



**Sandeep Singh**  
Director



**Amit Ghare**  
Director