

**Oshio Asia International CPA Office**  
**1-5-22, Bunkyo, Minami-ku, Sagami-hara-shi, Kanagawa-ken, Japan**

**AUDITORS' REPORT**

To the members of Neuland Laboratories K.K.

Report on the accounts for the year ended on March 31, 2017 in compliance with Japanese Company law.

We have audited the attached balance sheet of Neuland Laboratories K.K., as at March 31, 2017 and 2016, and also the profit and loss account for the years ended on those dates. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report that:

- a. We have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit.
- b. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books.
- c. The balance sheet and profit and loss account dealt with by this report are in agreement with the books of account.
- d. In our opinion, the balance sheet and profit and loss account dealt with by

this report comply with the generally accepted accounting standards.

- e. In our opinion and to the best of our information and according to the explanations given to us, the said accounts give the information required by the Company law in manner so required and give a true and fair view in conformity with the accounting principles generally accepted in Japan.
- i. in the case of the balance sheet , of the state of affairs of the company as at March 31, 2017.
- ii. in the case of the profit and loss account, of the income for the year ended on that date.

for Oshio Asia International CPA Office



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Takio Oshio  
(Japanese Certified Public Accountant)  
April 17, 2017

**Neuland Laboratories K.K.**

**BALANCE SHEET AS AT MARCH 31, 2017 and MARCH 31, 2016**

Unit : JPY

	Note to account	Year ended 31 March 2017	Year ended 31 March 2016
<b>Assets</b>			
<b>Current Assets</b>			
Cash & deposit		3,524,190	2,311,126
Accounts receivables – Affiliates	2	4,381,301	7,190,449
Accounts receivable – Service fee		-	-
Prepaid expenses – Rent		381,251	381,251
Prepaid expenses – Others		102,050	-
Advance payment		4,641,928	1,137,240
Consumption taxes (VAT)		942,990	751,714
<b>Current Assets Total</b>		<b>13,973,710</b>	<b>11,771,780</b>
<b>Fixed Assets</b>			
Tangible assets		-	-
Intangible assets		-	-
<b>Investment &amp; other assets</b>			
Deposit for rent		2,841,300	2,841,300
Long-term prepaid expenses		23,672	165,740
<b>Investment &amp; other assets Total</b>		<b>2,864,972</b>	<b>3,007,040</b>
<b>Fixed Assets Total</b>		<b>2,864,972</b>	<b>3,007,040</b>
<b>Assets Total</b>		<b>16,838,682</b>	<b>14,778,820</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable /Accrued expenses		-	-
Withholding social insurance		422,985	309,068
Withholding income taxes		401,820	311,040
Advance received	2	2,841,300	2,841,300
Provision for corporate income taxes		348,200	225,100
<b>Current Liabilities Total</b>		<b>4,014,305</b>	<b>3,686,508</b>
<b>Fixed Liabilities</b>		-	-
<b>Fixed Liabilities Total</b>		-	-
<b>Liabilities Total</b>		<b>4,014,305</b>	<b>3,686,508</b>
<b>Net Assets</b>			
<b>Shareholder's equity</b>			
Paid in capital		3,000,000	3,000,000
Capital surplus		-	-
<b>Earned surplus</b>			
Other earned surplus		-	-
<b>Earned surplus carried forward</b>		<b>8,092,312</b>	<b>6,994,136</b>
<b>(Net Profit for the Year)</b>		<b>(1,732,065)</b>	<b>(1,098,176)</b>
<b>Earned surplus Total</b>		<b>9,824,377</b>	<b>8,092,312</b>
<b>Net Assets Total</b>		<b>12,824,377</b>	<b>11,092,312</b>
<b>Net Assets /Liabilities Total</b>		<b>16,838,682</b>	<b>14,778,820</b>

**Neuland Laboratories K.K.**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2017 and MARCH 31, 2016**

Unit : JPY

	Notes to Account	Year ended 31 March 2017	Year ended 31 March 2016
Income			
Services fee income	1, 2	48,481,301	31,690,449
Gross income		48,481,301	31,690,449
General and administration expenses	3	46,195,672	30,181,486
Operating profit		2,285,629	1,508,963
Other operating income		1,936	4,013
Interest income		1,936	4,013
Others		0	0
Other operating expenses		-	-
Interest expense		-	-
Others		-	-
Ordinary profit		2,287,565	1,512,976
Extraordinary item		-	-
Others		-	-
Profit before taxes		2,287,565	1,512,976
Corporate tax, resident tax & business tax		555,500	414,800
Deferred taxes		-	-
Net income for the year		1,732,065	1,098,176

## Neuland Laboratories K.K.

### SIGNIFICANT ACCOUNTING POLICIES

#### A. BASIS OF ACCOUNTING AND USE OF ESTIMATES

- i. Financial statements are prepared under the historical cost convention, on accrual basis of accounting in accordance with the accounting principles generally accepted in Japan and in compliance with the provisions of Company's law.
- ii. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities if any at that date of the financial statements and the results of operations during the reporting period end.

#### B. REVENUE RECOGNITION

The company is engaged primarily in the support of active pharmaceutical ingredient, marketing and business support services on behalf of the parent company. The services fee for the support is calculated as 105% of the incurred expenses related to the support. The treatment is recognized by the Japanese tax authority.

#### C. TAXATION

Tax expenses comprises of current taxes. Current income tax is measured at the amount to be paid to the tax authorities in Japan.

### NOTES TO ACCOUNT

#### 1. Marketing support services fee

From April 2016 to March 2017 and April 2015 to March 2016

Unit : JPY

	March 31, 2017	March 31, 2016
Total operating expenses	46,195,672	30,181,486
Less taxes	23,004	106
Sub total	46,172,668	30,181,380
Mark up 5%	2,308,633	1,509,069
Service fee income for the year	48,481,301	31,690,449

#### 2. Inter company account

The below detail is the summary to Neuland Laboratories Limited

Unit : JPY

	March 31, 2017	March 31, 2016
Account receivable	4,381,301	7,190,449
Advanced received	2,841,300	2,841,300
Service fee	48,481,301	31,690,449

**3. Details of General and administration expenses**

From April 2016 to March 2017 and April 2015 to March 2016

Unit : JPY

Accounts	Year ended 31 March 2017	Year ended 31 March 2016
Advertising & promotion	2,104,790	1,249,840
Delivery expenses	131,686	7,073
Salaries	28,040,000	18,280,000
Commutation fee	493,785	400,812
Social insurance	2,635,311	1,938,464
Recruiting fee	0	756,000
Office supplies	318,773	228,244
Water, lighting fee	154,401	163,150
Traveling expenses	5,659,886	1,014,646
Commission paid (Bank charge)	157,400	114,500
Taxes (Inc. Revenue stamp)	23,004	106
Entertainment expenses	995,663	682,764
Communication fee	297,588	198,990
Others	8	-
PC maintenance	14,500	28,000
Book & subscription fee	9,259	5,063
Meeting expenses	225,806	122,082
Rent of office	4,236,120	4,236,120
Deferred renewal fee	142,068	142,066
Professional service fee	555,624	613,566
Total General and administration expenses	46,195,672	30,181,486
Others		
TOTAL	46,195,672	30,181,486