

Consolidated financial statements

Advanced Enzymes USA, Inc. and Subsidiaries

31 March 2018

Independent auditor's report

To,
The Board of Directors
Advance Enzymes USA Inc. and its' Subsidiaries

We have audited the accompanying consolidated financial statements of Advance enzymes USA Inc. and its' subsidiaries ("the Company") which comprise the consolidated balance sheets as at March 31, 2018 and March 31, 2017, the consolidated statements of profit and loss, the consolidated statements of cash flows and the consolidated statements of changes in equity for the years then ended 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 and fair presentation of these consolidated financial statements in accordance with Indian Accounting Standards ('IndAS'), as issued by the Institute of Chartered Accountants of India ('ICAI') and notified by Ministry of Corporate Affairs ('MCA'), India, under the Companies Act, 2013; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility:

Our responsibility is to express an opinion on these annual consolidated financial statements which have been prepared in accordance with the recognition and measurement principles laid down in the Companies (Indian Accounting Standards) Rules, 2015 as per Section 133 of the Companies Act, 2013 and other accounting principles generally accepted in India. We conducted in accordance with auditing standards generally accepted in the United States of America as established by Auditing Standards Board of the American Institute of Certified Public Accountant. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated IndAS financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the significant accounting estimates made by the Company's management, as well as evaluating the overall presentation of the Consolidated Ind AS financials statement.

We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of the Company as of March 31, 2018 and March 31, 2017 and the consolidated results of its operations and the consolidated cash flows and consolidated changes in equity for the years then ended, in accordance with Indian Accounting Standards ('IndAS').



Emphasis of matter

The accompanying consolidated financial information in US Dollars is prepared for the purpose of filing Annual Performance Report with the Reserve Bank of India("RBI") as per guidelines prescribed by RBI and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. We have verified the arithmetic accuracy of the presentation of the financial information. We did not audit and do not express an opinion on such information, and our opinion is not modified with respect to this matter.

Atul Deshmukh

Atlanta, Georgia

May 17, 2018

Advanced Enzymes USA, Inc. and Subsidiaries
Consolidated balance sheets

| | Notes | USD As at 31 March 2018 | INR As at 31 March 2018 | USD As at 31 March 2017 | INR As at 31 March 2017 | USD As at 1 April 2016 | INR As at 1 April 2016 |
|--|-------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|------------------------------|------------------------------|
| I. ASSETS | | | | | | | |
| (1) Non-current assets | | | | | | | |
| (a) Property, plant and equipment | 2 | 1,223,812 | 79,601,774 | 1,510,731 | 97,953,700 | 1,541,558 | 102,256,084 |
| (b) Intangible assets | 3 | 98,000 | 6,374,322 | - | - | - | - |
| (c) Goodwill | | 33,872,000 | 2,203,173,728 | 33,242,000 | 2,155,364,714 | 33,242,000 | 2,205,038,233 |
| (d) Deferred tax asset | 12 | 47,232 | 3,072,160 | - | - | - | - |
| Total non current assets | | 35,241,044 | 2,292,221,984 | 34,752,731 | 2,253,318,414 | 34,783,558 | 2,307,294,317 |
| (2) Current assets | | | | | | | |
| (a) Inventories | 4 | 3,669,950 | 238,708,579 | 3,690,920 | 239,314,105 | 3,123,981 | 207,222,754 |
| (b) Financial assets | | | | | | | |
| (i) Trade receivables | 5 | 1,410,581 | 91,749,951 | 1,198,950 | 77,738,266 | 1,017,255 | 67,477,450 |
| (ii) Cash and cash equivalents | 6 | 9,053,631 | 588,885,295 | 883,317 | 57,273,057 | 3,472,902 | 230,367,662 |
| (iii) Loans | 7 | 3,609,633 | 234,785,330 | - | - | - | - |
| (c) Income tax asset | | - | - | 193,974 | 12,577,014 | - | - |
| (d) Other current assets | 8 | 55,129 | 3,585,836 | 33,103 | 2,146,338 | 58,701 | 3,893,844 |
| Total | | 17,798,924 | 1,157,714,991 | 6,000,264 | 389,048,780 | 7,672,839 | 508,961,710 |
| Total | | 53,039,968 | 3,449,936,975 | 40,752,995 | 2,642,367,194 | 42,456,397 | 2,816,256,027 |
| II. EQUITY AND LIABILITIES | | | | | | | |
| (1) Equity | | | | | | | |
| (a) Equity share capital | 9 | 5,839,000 | 285,831,054 | 5,839,000 | 285,831,054 | 5,839,000 | 285,831,054 |
| (b) Other equity | 10 | 44,023,038 | 2,957,428,051 | 33,906,638 | 2,291,220,496 | 25,039,398 | 1,762,475,485 |
| Equity attributable to equity holders of the parent | | 49,862,038 | 3,243,259,105 | 39,745,638 | 2,577,051,550 | 30,878,398 | 2,048,306,539 |
| Total equity | | 49,862,038 | 3,243,259,105 | 39,745,638 | 2,577,051,550 | 30,878,398 | 2,048,306,539 |
| (2) Non current liabilities | | | | | | | |
| (a) Financial liabilities | | | | | | | |
| (i) Borrowings | 11 | - | - | - | - | 3,459,128 | 229,454,031 |
| (ii) Deferred tax liabilities (net) | 12 | - | - | 148,495 | 9,628,277 | 136,896 | 9,027,828 |
| Total non current liabilities | | - | - | 148,495 | 9,628,277 | 3,596,024 | 238,481,859 |
| (3) Current liabilities | | | | | | | |
| (a) Financial liabilities | | | | | | | |
| (i) Trade payables | 15 | 1,179,265 | 76,704,248 | 497,549 | 32,260,397 | 703,900 | 46,691,735 |
| (ii) Other financial Liabilities | 13 | 400,366 | 26,041,444 | 153,031 | 9,922,314 | 4,533,436 | 295,674,623 |
| (b) Other current liabilities | 14 | 1,269,937 | 82,601,917 | 98,351 | 6,376,951 | 1,940,406 | 126,555,010 |
| (c) Short-term provisions | 16 | 135,068 | 8,757,596 | 109,930 | 7,127,707 | 139,995 | 10,539,420 |
| (d) Liabilities for current tax (net) | | 193,294 | 12,572,665 | - | - | 664,239 | 50,006,841 |
| Total current liabilities | | 3,177,930 | 206,677,870 | 858,861 | 55,687,369 | 7,981,976 | 529,467,629 |
| Total liabilities | | 3,177,930 | 206,677,870 | 1,007,356 | 65,315,646 | 11,578,000 | 767,949,488 |
| TOTAL EQUITY AND LIABILITIES | | 53,039,968 | 3,449,936,975 | 40,752,995 | 2,642,367,195 | 42,456,398 | 2,816,256,027 |

Notes 1 to 35 form an integral part of these consolidated financial statements

This is the balance sheet referred to in our report of even date

For KNAV P.A.
Certified Public Accountants

Atul Deshmukh
Atul Deshmukh, CPA
Engagement Partner
Licensed in Georgia
Place : Atlanta, Georgia
Date: May 17, 2018

For and on behalf of Board of Directors of Advanced Enzymes USA, Inc. and subsidiaries

V. L. Rathi
Director

Place : Chino
Date: May 17, 2018

C. L. Rathi
Director

Place : Thane
Date: May 17, 2018

Advanced Enzymes USA, Inc. and Subsidiaries
Consolidated statements of profit and loss

| | | USD | INR | USD | INR |
|--|-------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | Notes | For the year ended 31 March 2018 | For the year ended 31 March 2018 | For the year ended 31 March 2017 | For the year ended 31 March 2017 |
| Revenue | | | | | |
| Revenue from operations (net) | 17 | 28,149,388 | 1,814,155,097 | 25,791,936 | 1,730,370,651 |
| Other income | 18 | 169,327 | 10,912,669 | 52,645 | 3,531,932 |
| Total revenue | | 28,318,715 | 1,825,067,766 | 25,844,581 | 1,733,902,583 |
| Expenses | | | | | |
| Cost of materials consumed | 19 | 8,394,815 | 540,682,663 | 6,590,806 | 447,196,501 |
| Changes in inventories of finished goods and work-in-progress | 20 | (362,650) | (21,715,327) | 589,205 | 37,078,864 |
| Employee benefit expenses | 21 | 2,690,465 | 173,393,490 | 2,623,951 | 176,039,802 |
| Finance costs | 22 | - | - | 208,219 | 13,969,318 |
| Depreciation and amortisation expense | 23 | 427,123 | 27,526,970 | 385,952 | 25,893,365 |
| Other expenses | 24 | 1,895,353 | 122,150,588 | 1,692,365 | 113,540,095 |
| Total expenses | | 13,045,106 | 842,038,384 | 12,090,498 | 813,717,945 |
| Profit before tax | | 15,273,609 | 983,029,382 | 13,754,083 | 920,184,638 |
| Tax expense | | | | | |
| Current tax | | 5,371,609 | 346,186,274 | 5,064,152 | 339,751,901 |
| Deferred tax | | (195,512) | (12,600,259) | 12,673 | 1,076,606 |
| Tax adjustment for earlier years | | - | - | (187,029) | (12,547,674) |
| | | 5,176,097 | 333,586,015 | 4,889,796 | 328,280,833 |
| Profit/(Loss) for the period | | 10,097,512 | 649,443,367 | 8,864,287 | 591,903,805 |
| Other comprehensive income | | | | | |
| Items that will be reclassified to profit or loss | | | | | |
| Exchange differences in translating financial statements of foreign operations | | | 15,546,982 | | (63,356,918) |
| Total comprehensive income for the period | | | 15,546,982 | | (63,356,918) |

Notes 1 to 35 form an integral part of these consolidated financial statements

This is the statement of profit and loss referred to in our report of even date

For KNAV P.A.
Certified Public Accountants

Atul Deshmukh
Atul Deshmukh, CPA
Engagement Partner
Licensed in Georgia
Place : Atlanta, Georgia
Date: May 15, 2017

For and on behalf of Board of Directors of Advanced Enzymes USA, Inc. and subsidiaries

V. L. Rathi
V. L. Rathi
Director

Place : Chino
Date : May 15, 2017

C. L. Rathi
C. L. Rathi
Director

Place : Thane
Date : May 15, 2017

Advanced Enzymes USA, Inc. and Subsidiaries
Consolidated statements of cash flows

| | USD For the year ended 31 March 2018 | INR For the year ended 31 March 2018 | USD For the year ended 31 March 2017 | INR For the year ended 31 March 2017 |
|---|--|--|--|--|
| Cash flows from operating activities | | | | |
| Profit before tax | 15,273,609 | 983,029,382 | 13,754,083 | 920,184,639 |
| Profit before exceptional items and tax | 15,273,609 | 983,029,382 | 13,754,083 | 920,184,639 |
| Adjustments for non-cash transactions | | | | |
| Depreciation and amortisation expense | 427,123 | 27,526,970 | 385,952 | 25,893,365 |
| ESOP amortisation expenses | 18,887 | 1,217,206 | 2,953 | 198,126 |
| Provision for inventory | 31,056 | 2,001,479 | - | - |
| | 15,750,675 | 1,013,775,037 | 14,142,989 | 946,276,130 |
| Items considered separately | | | | |
| Interest income | (92,308) | (5,949,011) | - | - |
| Interest expenses | - | - | 267,106 | 17,920,010 |
| | 15,658,367 | 1,007,826,026 | 14,410,095 | 964,196,139 |
| Operating profit before working capital changes | | | | |
| Increase / (decrease) in short term liabilities and provisions | 26,435 | 1,703,670 | 4,210,156 | 282,457,695 |
| Increase / (decrease) in trade payables | 681,716 | 43,934,832 | (206,351) | (13,843,996) |
| (Increase) / decrease in inventories | (10,086) | (650,012) | (566,939) | (38,035,695) |
| (Increase) / decrease in trade receivables | 958,658 | 61,783,053 | (181,696) | (12,189,896) |
| (Increase) / decrease in other current assets | (22,026) | (1,419,550) | 25,598 | 1,717,376 |
| Increase / (decrease) in other financial liabilities | (2,665) | (171,753) | 63,056 | 4,230,401 |
| Cash generated from operating activities | 17,290,399 | 1,113,006,266 | 17,753,919 | 1,188,532,024 |
| Income taxes paid | (4,984,341) | (321,227,846) | (5,824,975) | (390,795,175) |
| Net cash generated from operating activities | 12,306,058 | 791,778,420 | 11,928,945 | 797,736,850 |
| Cash flows from investing activities | | | | |
| Purchase of tangible assets | (140,420) | (9,049,696) | (356,038) | (23,886,455) |
| Increase in goodwill | (380,000) | (24,490,015) | - | - |
| Purchase of intangible assets | (98,000) | (6,315,846) | - | - |
| Loan given to related party | (3,517,324) | (226,682,413) | - | - |
| Interest received | - | - | - | - |
| Net cash used in investing activities | (4,135,744) | (266,537,970) | (356,038) | (23,886,455) |
| Cash flows from financing activities | | | | |
| Proceeds from long term borrowings | - | - | 5,962,176 | 400,000,000 |
| Repayment of long term borrowings | - | - | (19,857,565) | (1,732,236,032) |
| Interest paid | - | - | (267,105) | (17,920,009) |
| Net cash used in financing activities | - | - | (14,162,494) | (1,350,156,041) |
| Net (decrease) / increase in cash and cash equivalents | 8,170,314 | 525,240,450 | (2,589,585) | (576,305,647) |
| Cash and cash equivalents as at the beginning of the year | 883,317 | 57,273,057 | 3,472,902 | 230,367,662 |
| Effect of exchange rate changes on cash and cash equivalents held | - | 6,371,788 | - | 403,211,042 |
| Cash and cash equivalents as at the end of the year | 9,053,631 | 588,885,295 | 883,317 | 57,273,057 |

Supplemental non-cash financing activities

- 1) The parent company during the previous year ended March 31, 2017 issued 11,500 graded options to two of the employees of the Company. The Company has elected to consider the same as contribution to reserves by the parent company leading to an increase in reserves by INR 1,217,206 in the year ended March 31, 2018 and INR 198,125 in the year ended March 31, 2017. (Refer note 25 on related parties).

This is the cash flow statement referred to in our report of even date

For KNAV P.A.
Certified Public Accountants

Atul Deshmukh
Atul Deshmukh, CPA
Engagement Partner
Licensed in Georgia
Place : Atlanta, Georgia
Date: May 15, 2017

For and on behalf of Board of Directors of Advanced Enzymes USA, Inc. and subsidiaries


V. L. Rathi
Director


E. L. Rathi
Director

Place : Chino
Date: May 15, 2017

Place : Thane
Date: May 15, 2017

Advanced Enzymes USA, Inc. and Subsidiaries
Consolidated statement of changes in equity (SOCIE)

(All amounts are stated in Indian Rupees except for the number of shares, unless otherwise stated)

| | As at 31 March, 2018 | | As at 31 March, 2017 | | As at 01 April, 2016 | |
|---|----------------------|-------------|----------------------|-------------|----------------------|-------------|
| | No. of Shares | Amount | No. of Shares | Amount | No. of Shares | Amount |
| (a) Equity share capital | | | | | | |
| Balance at the beginning of the year | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |
| Changes in equity share capital during the year | | | | | | |
| Balance at the end of the year | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |

(b) Other equity

| Particulars | Reserves & Surplus | | | | | Total Equity |
|---|----------------------------|----------------------|----------------------------|-------------------|---|---------------|
| | Securities Premium account | Capital Contribution | Other comprehensive income | Retained earnings | | |
| Balance at April 1, 2016 | 242,164,086 | - | 194,512,920 | 1,325,798,479 | | |
| Incl AS Adjustments | - | - | - | - | - | |
| Changes in accounting policy / prior period errors / movement during the period | | | | | | |
| Balance at April 1, 2016 | 242,164,086 | - | 194,512,920 | 1,325,798,479 | | 1,762,475,485 |
| Profit for the year | - | - | - | 591,903,805 | | 591,903,805 |
| Other comprehensive income for the year | - | - | (63,356,918) | - | | (63,356,918) |
| Total comprehensive income for the year | - | - | (63,356,918) | 591,903,805 | | 528,546,887 |
| Less : Deletion during the year | - | - | - | - | | - |
| Add : Addition during the year | - | 198,126 | - | - | | 198,126 |
| Balance at March 31, 2017 | 242,164,086 | 198,126 | 131,156,002 | 1,917,702,284 | | 2,291,220,498 |
| Profit/addition for the year | - | 1,217,206 | - | 649,443,367 | | 650,660,573 |
| Other comprehensive income for the year | - | - | 15,546,982 | - | | 15,546,982 |
| Total comprehensive income for the year | - | 1,217,206 | 15,546,982 | 649,443,367 | | 666,207,555 |
| Balance at March 31, 2018 | 242,164,086 | 1,415,332 | 146,702,984 | 2,567,145,650 | | 2,957,428,053 |

Advanced Enzyme USA Inc. and Subsidiaries
Notes to consolidated financial statements

1 Overview of the Company

Advanced Enzymes USA, Inc. ("The Company") was incorporated in the state of California on November 1, 2010 and began operations in February 2011. The Company is a wholly owned subsidiary of Advanced Enzymes Technologies Ltd. ("the Parent"), an India corporation. The Company was formed to serve as a holding company to allow the Parent to own interests in United States corporations.

The Company purchased all of the outstanding common stock of Cal-India Foods International, Inc. ("CALI") and Advanced Supplementary Technologies Corporation ("AST") on April 4, 2011 and October 31, 2012, respectively. CALI does business as Specialty Enzymes and Biochemicals Co. ("SEB"). The Company segregated the existing subsidiaries in two additional companies, Enzymes Innovation Inc. and Dynamic Enzymes Inc. AE USA incorporated Enzyful Innovation Inc. ("EFI"), a California Company on December 30, 2015. However, the Company was delisted in September 2017.

The Company engages in manufacturing custom formulated enzymes to fit the needs of a variety of clients, and it offers lab testing and product formulation from conception to finished product. The Company primarily services small-to-middle market companies. The Company focuses on consumer sales of encapsulated and bottled enzyme supplements primarily online and through medical professionals. Its customers primarily operate in the nutraceutical industry, though it also services the food and beverage industry, municipal water industries, and is increasingly targeting industrial companies. The company also offers healthcare professionals and consumer a natural/therapeutic alternative for preventative care and health.

2 Basis of preparation of consolidated financial statements

a. Statement of compliance

The Consolidated financial statements of Advanced enzymes USA, Inc. and its Subsidiaries ("the Company") comply in all material aspects with Indian Accounting Standards ("Ind AS") as prescribed under section 133 of the Companies Act, 2013 ("the Act"), as notified under the Companies (Indian Accounting Standards) Rules, 2015 and other accounting principles generally accepted in India. These consolidated Consolidated financial statements are the first Consolidated financial statements of the Group as per Ind AS.

As these are the Company's first consolidated financial statements prepared in accordance with Ind AS, Ind AS 101, First-time adoption of Indian Accounting Standards has been applied. The financial information in this report is shown in both US Dollars (USD) and in Indian Rupees (INR) for 31 March, 2018, 31 March, 2017 and 01 April 2016. Dollar amounts are translated into Indian Rupees using closing rate for consolidated balance sheets items, average rates for consolidated profit and loss statements items and historic rate for equity.

The Consolidated financial statements were authorized for issue by the Company's Board of Directors on May 17, 2018

b. Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following:

- certain financial assets and liabilities that are measured at fair value.

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control framework with respect to the measurement of fair values, which includes overseeing all significant fair value measurements, including Level 3 fair values by the management. The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of Ind AS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of a financial asset or a financial liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs that are not based on observable market data (unobservable inputs)

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2.1 Basis of presentation

a. Functional and presentation currency

The Consolidated financial statements of the Company are reported in Indian Rupees. The functional currency of the Company is United States Dollars (USD). The consolidated results and financial position of the Company that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that balance sheet
- Income and expenses are translated at average exchange rates and;
- All resulting exchange differences are recognized in other comprehensive income.

b. Classification of assets as current and non-current:

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III to the Companies Act, 2013. Based on the nature of products and the time between the acquisition of assets for processing and their realisation in cash and cash equivalents, the Company has ascertained its operating cycle as 12 months for the purpose of current and non current classification of assets and liabilities.

c. Use of estimates

The preparation of Consolidated financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumption that affect the reported amounts of assets and liabilities, revenue and expenses and disclosure of contingent liabilities. The estimates and assumptions used in accompanying Consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the Consolidated financial statements are reviewed on an ongoing basis. Actual results may differ from the estimates and assumptions used in preparing the accompanying Consolidated financial statements. Any revision to accounting estimates is recognised prospectively in current and future periods.

Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 March 2018 are as follows:

a. Property, plant and equipment

Property, plant and equipment represent a significant proportion of the asset base of the Company. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. The useful lives and residual values of Company's assets are determined by management at the time the asset is acquired and reviewed periodically, including at each financial year end. The lives are based on historical experience with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology.

b. Recognition of deferred tax assets

Deferred tax assets are recognised for the future tax consequences of temporary differences between the carrying values of assets and liabilities and their respective tax bases, and unutilised business loss and depreciation carry-forwards and tax credits. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses, depreciation carry-forwards and unused tax credits could be utilised.

c. Business combination and intangible assets

Business combinations are accounted for using Ind AS 103, Business Combinations. Ind AS 103 requires the identifiable intangible assets and contingent consideration to be fair valued in order to ascertain the net fair value of identifiable assets, liabilities and contingent liabilities of the acquiree. Significant estimates are required to be made in determining the value of intangible assets. These valuations are conducted by independent valuation experts.

4 Significant accounting policies:

The accounting policies set out below have been applied consistently to the periods presented in the Consolidated financial statements.

a. Principles of Consolidation

The Consolidated financial statements' (hereafter, Consolidated financial statements') relates to The Company and its subsidiary companies (collectively called "the Company"). Subsidiary companies have been consolidated as per Ind AS 103. The Consolidated financial statements have been prepared on the following basis:

a. The Consolidated financial statements of the Company ("Advanced Enzyme USA Inc.") and its subsidiaries have been consolidated on a line by line basis by adding together the like items of assets, liabilities, income and expenses after eliminating intra Company balances, intra Company transactions and unrealised profits/ losses from the intra Company transactions.

b. The excess/deficit (as on the date of acquisition) of the Company's investment cost over the subsidiaries net worth is recognised as goodwill on consolidation or capital reserve as the case may be and the impairment loss, if any is provided for.

c. The Consolidated financial statements of the Company and its subsidiaries have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances as mentioned in the policies.

d. Subsidiary companies are consolidated from the date on which effective control is transferred to the Company and are no longer consolidated from the date of disposal.

e. The Subsidiary companies considered in the Consolidated financial statements are as follows:

| Name of the Company | Country of incorporation | % age voting power held as at 31 March 2018 | % age voting power held as at 31 March 2017 |
|--|--------------------------|---|---|
| 1. Cal India Foods International (Wholly owned subsidiary of Advanced Enzymes USA, Inc.) | USA | 100% | 100% |
| 2. Advanced Supplementary Technologies Corporation (Wholly owned subsidiary of Advanced Enzymes USA, Inc.) | USA | 100% | 100% |
| 3. Enzyme Innovation, Inc. (Wholly owned subsidiary of Cal India Foods International) | USA | 100% | 100% |
| 4. Dynamic Enzymes, Inc. (Wholly owned subsidiary of Advanced Enzymes USA, Inc.) | USA | 100% | 100% |
| 5. Enzyfud Innovation, Inc. (Wholly owned subsidiary of Advanced Enzymes USA, Inc.) | USA | 0% | 100% |

b. Business combination

As part of its transition to Ind AS, the Company has elected to apply the relevant Ind AS, viz. Ind AS 103, Business Combinations, to only those business combinations that occurred on or after 1 April 2011. In accordance with Ind AS 103, the Company accounts for these business combinations using the acquisition method when control is transferred to the Company. The consideration transferred for the business combination is measured at fair value as at the date the control is acquired (acquisition date), as are the net identifiable assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except to the extent related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships with the acquiree. Such amounts are recognised in the consolidated statement of profit and loss. If a business combination is achieved in stages, any previously held equity interest in the acquiree is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of profit and loss or OCI, as appropriate.

c. Revenue recognition

Revenue from sale of goods in the course of ordinary activities is measured at fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when all of the following criteria are met:

- a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
 - b) there is no continuing effective control or managerial involvement, with the goods;
 - c) the amount of revenue can be measured reliably;
 - d) it is probable that the economic benefits associated with the transaction will flow to the Company; and
 - e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.
- Interest income is recognized on a time proportionate basis, taking into account the amount outstanding and the rates applicable.

d. Income taxes

Tax expense for the period, comprising current tax and deferred tax, are included in the determination of the net profit or loss for the period. Current tax is measured at the amount expected to be paid to the tax authorities in accordance with the applicable tax laws.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off assets against liabilities representing current tax and where the deferred tax assets and the deferred tax liabilities relate to taxes on income levied by the same governing taxation laws.

c. Stock based compensation:

The Company accounts for stock based compensation expense relating to equity stock options that will be settled in shares of Advance Enzymes Technology Limited, its ultimate parent company. Equity-settled plans are accounted at fair value as at the grant date. The fair value of the share-based option is determined at the grant date using a market-based option valuation model (Black-Scholes Option Valuation Model). The fair value of the option is recorded as compensation expense amortized over the vesting period of the options, with a corresponding increase in Reserves and Surplus under the head "Retained earnings".

The Company recognized stock based compensation for awards granted by the ultimate parent company, that are expected to vest on a straight line basis over the requisite service period of the awards. In respect of awards that have a graded vesting schedule and with only service conditions, compensation cost is recognized on straight line basis over the requisite service period for each separately vesting portion of the award as if the award was-in-substance, multiple awards.

f. Employee benefits

i. Defined contribution plans

Contributions to defined contribution plans are charged to income in the period in which they accrue. The Company has a discretionary profit sharing plan and 401(k) matching plan covering eligible and participating employees.

g. Provisions and contingencies

The Company recognizes a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is a possible obligation or a present obligation that the likelihood of outflow of resources is remote, no provision or disclosure is made.

h. Leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged on a straight line basis against profits as per the terms of the lease agreement over the lease period.

i. Inventories

Inventories are valued at lower of cost or net realizable value on an item-by-item basis.

Cost of finished goods, traded goods and work in progress is determined by considering materials, labour and other related costs incurred in bringing the inventories to their present condition and location.

Cost of raw materials, packing materials and consumables is determined on first-in-first-out basis. Cost of finished goods (including traded goods) and work in progress is determined on weighted average cost basis.

j. Cash and cash equivalents

Cash comprises of cash at bank and on hand and cash equivalents comprise of short-term bank deposits with an original maturity of three months or less.

k. Property, plant and equipment and depreciation

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses, if any. Cost includes taxes, duties, freight and other incidental expenses directly related to acquisition/construction and installation of the assets. Any trade discounts and rebates are deducted in arriving at the purchase price.

Subsequent expenditure related to an item of fixed asset are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.

Leasehold improvements represent expenses incurred towards civil work and interior furnishings on the leased premises.

The estimated useful life of assets are as follows:

| | |
|--|---------------|
| Leasehold improvements | Term of lease |
| Furniture and fixtures | 5 years |
| Office equipment | 5 years |
| Computer and data processing equipment | 3 years |

Depreciation on tangible fixed assets (property, plant and equipment) has been provided on Straight-Line Method. Depreciation is provided on a pro-rata basis, i.e. from the date on which asset is ready for use.

Depreciation method, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Leasehold improvements and leasehold land are amortized over the unexpired primary period of lease except for lease hold land acquired under perpetual lease.

On transition to Ind AS, the Company has elected to continue with the carrying value of all of its property, plant and equipment recognised as at 1 April 2016, measured as per the previous G.A.P, and use that carrying value as the deemed cost of such property, plant and equipment

l. Impairment of assets

The carrying values of assets at each balance sheet date are reviewed for impairment if any indication of impairment exists.

If the carrying amount of the assets exceeds the estimated recoverable amount, an impairment is recognized for such excess amount. The impairment loss is recognized as an expense in the Statement of Profit and Loss, unless the asset is carried at revalued amount, in which case any impairment loss of the revalued asset is treated as a revaluation decrease to the extent a revaluation reserve is available for that asset.

The recoverable amount is the greater of the net selling price and their value in use. Value in use is arrived at by discounting the future cash flows to their present value based on an appropriate discount factor.

When there is indication that an impairment loss recognized for an asset (other than a revalued asset) in earlier accounting periods no longer exists or may have decreased, such reversal of impairment loss is recognized in the consolidated statements of Profit and Loss, to the extent the amount was previously charged to the consolidated Statements of Profit and Loss. In case of revalued assets such reversal is not recognized.

m. Intangible assets

Intangible assets are stated at cost of acquisition less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure related to an item of intangible assets are added to its book value only if they increase the future benefits from the existing asset beyond its previously assessed standard of performance.

Costs relating to acquisition of technical know-how and software are capitalized as intangible assets.

The Company has elected to continue with the carrying value of all its property, plant and equipment as recognized in the consolidated Consolidated financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as the deemed cost as at the transition date pursuant to the exemption under Ind AS 101

n. Foreign currency transactions

The translation of Consolidated financial statements from the local currency to the reporting currency of the Company is performed for balance sheet accounts using the exchange rate in effect at the balance sheet date and for revenue, expense and cash-flow items using average exchange rate for the respective periods and the resulting difference is presented as foreign currency translation reserve included in 'Reserves and Surplus'. The Consolidated financial statements of the company are reported in Indian Rupees. The functional currency of Advanced Enzymes USA, Inc. and subsidiaries is United States Dollar.

o. Financial Instruments

a. Financial assets

i. Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value, in case of financial asset which are recognised at fair value through profit and loss (FVTPL), its transaction cost are recognised in the consolidated statement of profit and loss. In other cases, the transaction costs are attributed to the acquisition value of the financial asset.

Classification

Financial assets

On initial recognition, a financial asset is classified as measured at

- amortised cost.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Company changes its business model for managing financial assets.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

iii Subsequent measurement and gains and losses

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the consolidated statement of profit and loss. Any gain or loss on derecognition is recognised in the consolidated statement of profit and loss.

iv. Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

If the Company enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised.

v. Impairment of financial assets

In accordance with Ind AS 109, the Company applies Expected Credit Loss (ECL) model for measurement and recognition of impairment loss on the following financial assets and credit risk exposure:

- i. Financial assets that are debt instruments, and are measured at amortised cost e.g., loans, debt securities, deposits, and bank balance.
 - ii. Trade receivables.
- The application of simplified approach does not require the Company to track changes in credit risk. Rather, it recognises impairment loss allowance based on lifetime ECLs at each reporting date, right from its initial recognition.

b. Financial liabilities

i. Recognition and initial measurement

All financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is initially measured at fair value, in case of financial liability which are recognised at fair value through profit and loss (FVTPL), its transaction cost are recognised in the consolidated statement of profit and loss.

ii. Classification, subsequent measurement and gains and losses

Financial liabilities are classified as FVTPL. A financial liability is classified as held- for- trading, or it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the consolidated statement of profit and loss. Interest expense and foreign exchange gains and losses are recognised in the consolidated statement of profit and loss.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

p. Standards issued but not yet effective

On March 28, 2018, MCA has notified the Companies (Indian Accounting Standards) Amendment Rules, 2018 containing Appendix B to Ind AS 21, Foreign currency transactions and advance consideration which clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in a foreign currency. This amendment will come into force from April 1, 2018. The Company has evaluated the effect of this on the Consolidated financial statements and the impact is not material.

Ind AS 115, Revenue from Contract with Customers: On March 28, 2018, Ministry of Corporate Affairs has notified the Ind AS 115, Revenue from Contract with Customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Further the new standard requires enhanced disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The standard permits two possible methods of transition:

- Retrospective approach - Under this approach the standard will be applied retrospectively to each prior reporting period presented in accordance with Ind AS 8 - Accounting Policies, Changes in Accounting Estimates and Errors.
- Retrospectively with cumulative effect of initially applying the standard recognized at the date of initial application (Cumulative catch - up approach)
The effective date for adoption of Ind AS 115 is financial periods beginning on or after April 1, 2018.
The Company will adopt the standard on April 1, 2018 by using the cumulative catch-up transition method and accordingly comparatives for the year ending or ended March 31, 2018 will not be retrospectively adjusted. The effect on adoption of Ind AS 115 is expected to be insignificant.

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

2 Tangible assets

| | Office equipments | Furniture and fixtures | Computer | Leasehold improvements | Plant and equipment | Total |
|--|-------------------|------------------------|-----------|------------------------|---------------------|-------------|
| Gross block | | | | | | |
| Balance as at 1 April 2016 | 280,963 | 3,368,196 | 1,279,621 | 74,495,448 | 22,831,849 | 102,256,077 |
| Additions | 956,027 | 1,094,039 | 3,415,196 | 8,510,852 | 9,910,341 | 23,886,455 |
| - Foreign exchange fluctuation | (28,858) | (59,931) | 95,890 | 1,560,754 | 549,997 | 2,295,425 |
| Balance as at 31 March 2017 | 1,208,131 | 4,402,304 | 4,598,927 | 81,445,546 | 32,192,193 | 123,847,109 |
| Additions | - | - | 963,295 | 7,200,910 | 871,571 | 9,035,776 |
| - Foreign exchange fluctuation | (30) | (7,252) | 6,218 | 142,849 | (2,533) | 139,253 |
| Balance as at 31 March 2018 | 1,208,102 | 4,395,052 | 5,568,441 | 88,789,306 | 33,061,231 | 133,022,138 |
| Accumulated depreciation and amortisation | | | | | | |
| Balance as at 1 April 2016 | - | - | - | - | - | - |
| Depreciation expense | 284,559 | 1,569,277 | 1,416,400 | 13,775,579 | 8,847,594 | 25,893,409 |
| Balance as at 31 March 2017 | 284,559 | 1,569,277 | 1,416,400 | 13,775,579 | 8,847,595 | 25,893,409 |
| Depreciation expense | 319,299 | 1,753,059 | 1,381,044 | 14,995,968 | 9,077,584 | 27,526,955 |
| Balance as at 31 March 2018 | 603,858 | 3,322,336 | 2,797,444 | 28,771,546 | 17,925,179 | 53,420,364 |
| Net block | | | | | | |
| Balance as at 31 March 2017 | 923,572 | 2,833,027 | 3,182,527 | 67,669,968 | 23,344,598 | 97,953,700 |
| Balance as at 31 March 2018 | 604,244 | 1,072,716 | 2,770,997 | 60,017,760 | 15,136,053 | 79,601,774 |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

3 Intangible assets

| Gross block | Website Domain | Total |
|--|-------------------|------------------|
| Balance as at 1 April 2016 | - | - |
| Additions | - | - |
| - Foreign exchange fluctuation | - | - |
| Balance as at 31 March 2017 | - | - |
| Additions | 6,315,846 | 6,315,846 |
| - Foreign exchange fluctuation | 58,476 | 58,476 |
| Balance as at 31 March 2018 | 6,374,322 | 6,374,322 |
| Accumulated depreciation and amortisation | | |
| Balance as at 1 April 2016 | - | - |
| Depreciation expense | - | - |
| Balance as at 31 March 2017 | - | - |
| Depreciation expense | - | - |
| Balance as at 31 March 2018 | - | - |
| Net block | | |
| Balance as at 31 March 2017 | - | - |
| Balance as at 31 March 2018 | 6,374,322 | 6,374,322 |

(Refer note no. 26 on Business Acquisition for acquisition of intangible assets)

Advanced Enzymes USA, Inc. and Subsidiaries**Notes to the consolidated financial statements***(All amounts are stated in Indian Rupees, unless otherwise stated)*

| | As at 31 March 2018 | As at 31 March 2017 | As at 1 April 2016 |
|---|------------------------|------------------------|-----------------------|
| 4 Inventories (valued at cost or lower of net realisable value) | | | |
| Raw materials (Goods-in-transit amounts to Rs. 18,175,215 as on April 01, 2016) | 155,564,112 | 179,946,045 | 107,402,787 |
| Work-in-progress | 1,232,623 | 3,617,516 | 5,440,619 |
| Finished goods | 79,168,207 | 53,957,706 | 93,155,287 |
| Stores and spares | 2,743,637 | 1,792,838 | 1,224,061 |
| | <u>238,708,579</u> | <u>239,314,105</u> | <u>207,222,754</u> |
| 5 Trade receivables | | | |
| Outstanding for a period exceeding six months from the date they are due for | | | |
| Unsecured considered good | - | 30,609 | - |
| Other debts | | | |
| Unsecured considered good | 91,749,951 | 78,136,888 | 67,477,450 |
| Provision of bad and doubtful debts | - | (429,231) | - |
| | <u>91,749,951</u> | <u>77,738,266</u> | <u>67,477,450</u> |

*(Refer note 29(ii) for information about credit risk and market risk of trade receivables)**(Refer note 25 for receivables from related parties)*

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

| | As at 31 March 2018 | | As at 31 March 2017 | | As at 1 April 2016 | |
|----------------------------------|------------------------|-------------|------------------------|-------------|-----------------------|-------------|
| | Current | Non-current | Current | Non-current | Current | Non-current |
| 6 Cash and bank balances | | | | | | |
| Cash and cash equivalents | | | | | | |
| Cash on hand | 32,522 | - | 32,419 | - | 33,166 | - |
| Balances with banks | | | | | | |
| - in current accounts | 588,852,773 | - | 57,240,638 | - | 230,334,496 | - |
| Total | 588,885,295 | - | 57,273,057 | - | 230,367,662 | - |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated.)

| | As at 31 March 2018 | As at 31 March 2017 | As at 1 April 2016 |
|---|------------------------|------------------------|-----------------------|
| 7 Loans | | | |
| (unsecured considered good unless otherwise stated) | | | |
| Loan to related parties | 234,785,330 | | |
| | - | - | - |
| | 234,785,330 | | |

Note:

During the year ended March 31, 2018, in the month of August 2017, the Company advanced a sum of USD \$ 3,557,871 (INR 229,295,562) to Advanced Enzymes Europe B.V to enable it conduct operating activities. The said advances bear an interest rate of 4% and are repayable within a year from the date of borrowing. During the year the Company earned an interest income of \$ 92,308 (INR 5,949,011).

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated.)

| | As at 31 March 2018 Short term | As at 31 March 2017 Short term | As at 1 April 2016 Short term |
|-------------------------------|--------------------------------------|--------------------------------------|-------------------------------------|
| 8 Other current assets | | | |
| Advance to suppliers | 2,637,343 | | |
| Prepaid Expenses | 785,915 | 1,834,085 | 2,913,228 |
| Others | 162,578 | 312,253 | 980,616 |
| | <u>3,585,836</u> | <u>2,146,338</u> | <u>3,893,844</u> |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to consolidated financial statements

(All amounts are stated in Indian Rupees except for the number of shares, unless otherwise stated)

| | As at 31 March 2018 | | As at 31 March 2017 | | As at 1 April 2016 | |
|---|------------------------|---------------|------------------------|---------------|-----------------------|-------------|
| | Number | Amount | Number | Amount | Number | Amount |
| 9 Share capital | | | | | | |
| Authorised | | | | | | |
| Equity shares of USD 1,000 each | 100,000 | 6,504,410,000 | 100,000 | 6,633,290,000 | 5,839 | 285,831,054 |
| | 100,000 | 6,504,410,000 | 100,000 | 6,633,290,000 | 5,839 | 285,831,054 |
| Issued, subscribed and fully paid up | | | | | | |
| Equity shares of USD 1,000 each | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |
| Total | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |

| a) Reconciliation of Equity share capital | As at 31 March 2018 | | As at 31 March 2017 | | As at 1 April 2016 | |
|---|------------------------|-------------|------------------------|-------------|-----------------------|-------------|
| | Number | INR | Number | INR | Number | Rs |
| Balance at the beginning of the year | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |
| Add : Issued during the year | - | - | - | - | - | - |
| Balance at the end of the year | 5,839 | 285,831,054 | 5,839 | 285,831,054 | 5,839 | 285,831,054 |

b) Rights, preferences and restrictions attached to shares

The company has one class of equity shares having a par value of USD \$ 1,000 per share. Each shareholder is eligible for one vote per share held. Any dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except in case of interim dividend. In the event of liquidation, the equity shareholders are eligible to receive the remaining assets of the Company, in proportion to their shareholding.

c) Shareholders holding more than 5% of the shares

| | Number | % of holding | Number | % of holding | Number | % of holding |
|--|--------|--------------|--------|--------------|--------|--------------|
| <u>Equity shares of USD 1,000 each</u> | | | | | | |
| Advanced Enzyme Technologies Limited | 5,839 | 100.00% | 5,839 | 100.00% | 5,839 | 100.00% |
| | 5,839 | 100.00% | 5,839 | 100.00% | 5,839 | 100.00% |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to consolidated financial statements

(All amounts are stated in Indian Rupees except for the number of shares, unless otherwise stated)

| | As at 31 March 2018 | As at 31 March 2017 | As at 1 April 2016 |
|---|------------------------|------------------------|-----------------------|
| 10 Reserves and surplus | | | |
| Other comprehensive income: Foreign currency translation reserve | | | |
| Balance at the beginning of the year | 131,156,002 | 194,512,920 | (250,312,858) |
| Add : Additions made during the year | 15,546,982 | (63,356,918) | 444,825,778 |
| Balance at the end of the year | <u>146,702,984</u> | <u>131,156,002</u> | <u>194,512,920</u> |
| Capital contribution | | | |
| Balance at the beginning of the year | 198,126 | - | - |
| Add : Additions made during the year | 1,217,206 | 198,126 | - |
| Less : Deletions made during the year | - | - | - |
| Balance at the end of the year | <u>1,415,332</u> | <u>198,126</u> | <u>-</u> |
| Securities premium | | | |
| Balance at the beginning of the year | 242,164,086 | 242,164,086 | 242,164,086 |
| Add : Additions made during the year | - | - | - |
| Less : Deletions made during the year | - | - | - |
| Balance at the end of the year | <u>242,164,086</u> | <u>242,164,086</u> | <u>242,164,086</u> |
| Surplus in the statement of profit and loss | | | |
| Balance at the beginning of the year | 1,917,702,282 | 1,325,798,479 | 799,078,594 |
| Add : Transferred from statement of profit and loss | 649,443,366 | 591,903,803 | 526,719,885 |
| Balance at the end of the year | <u>2,567,145,648</u> | <u>1,917,702,282</u> | <u>1,325,798,479</u> |
| | <u>2,957,428,051</u> | <u>2,291,220,496</u> | <u>1,762,475,485</u> |

Advanced Enzymes USA, Inc. and Subsidiaries

Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated.)

| | As at 31 March 2018 | As at 31 March 2017 | As at April 1, 2016 |
|----------------------------|------------------------|------------------------|------------------------|
| | Long term | Long term | Long term |
| 11 Borrowings | | | |
| Secured | | | |
| Loans from related parties | - | - | 229,454,031 |
| Total borrowings | <u>-</u> | <u>-</u> | <u>229,454,031</u> |

Details of borrowings

(i) Term loans from related parties were secured by pledge of 2,000 equity shares of Cal India Food International and 1000 shares of Advanced Supplementary Technologies Corporation.

(ii) AETL Loan

Based on the agreement dated August 1, 2016, the Company obtained loan from AETL (parent company) in Indian Rupees amounting to INR 400,000,000 .i.e. USD 5,976,393. Rate of Interest on loan is 10.50% per annum . The loan was provided as a financial assistance in the form of unsecured loan. The purpose of the finance is for prepayment of loans availed by the company .i.e. loan from Vasant Rathi and Rathi Properties LLC.

Terms of the loan:

Repayment of Loan : Five Quarterly Instalments of INR 80,000,000 commencing from quarter ended 30.09.2016 payable on 7th of next month.

(iii) Vasant Rathi Loan

On June 30, 2016 and August 11, 2016 the Company pre-paid the entire loan from Vasant Rathi (related party) in two installments of USD 916,489 and USD 5,724,041, respectively. The overall interest expense for the year ended March 31, 2017, amounted to USD 81,634 (Year ended March 31, 2016 : 380,055). No prepayment penalty is levied.

(iv) Rathi Properties LLC. Loan

On June 30, 2016 and August 11, 2016 the Company pre-paid the entire loan from Rathi Properties LLC (related party) in two installments of USD 161,594 and USD 1,025,971, respectively. The overall interest expense for the year ended March 31, 2017, amounted to USD 14,608 (Year ended March 31, 2016 : 59,064). No prepayment penalty is levied.

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated.)

12. Income taxes

Tax expense

(a) Amounts recognised in profit and loss

| | Year ended 31 March, 2018 | Year ended 31 March, 2017 |
|--|------------------------------|------------------------------|
| Current income tax | 346,186,274 | 339,751,901 |
| Changes in estimates related to prior period | - | (12,547,674) |
| Deferred tax expense | (12,600,259) | 327,204,227 |
| Tax expense for the year | 333,586,015 | 328,280,833 |

(b) Amounts recognised in other comprehensive income

| | Year ended March 31, 2018 | Year ended March 31, 2017 |
|---------------|---------------------------|---------------------------|
| Before tax | | |
| Tax (expense) | | |
| benefit | | |
| Net of tax | | |
| Before tax | | |
| Tax (expense) | | |
| benefit | | |
| Net of tax | | |

Items that will not be reclassified to profit or loss
Remeasurements of the defined benefit plans

(c) Reconciliation of effective tax rate

| | Year ended 31 March, 2018 | Year ended 31 March, 2017 |
|---|------------------------------|------------------------------|
| Profit before tax | 983,029,382 | 920,184,638 |
| Tax using the Company's domestic tax rate (March 31, 2018 : 31%, March 31, 2017 : 34%) | 304,739,108 | 312,862,777 |
| Tax effect of: | | |
| Incremental deduction allowed for research and development costs | | |
| State tax | 59,967,307 | 53,919,892 |
| Permanent differences | (22,822,567) | (25,010,776) |
| Investment allowance deduction | | |
| Prior period tax | (5,632,054) | (14,171,542) |
| Tax rate differential | (643,127) | 880,497 |
| Others | (2,022,652) | (200,014) |
| Tax expense as per profit or loss | 333,586,015 | 328,280,833 |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated.)

Income taxes (continued)

(d) Movement in deferred tax balances

| | 31 March, 2018 | | | |
|---------------------------------|------------------------------|---------------------------------|----------------------|-------------------------------------|
| | Net balance April 1, 2017 | Recognised in profit or loss | Recognised in OCI | Others |
| | | | | Net deferred tax asset/liability |
| | | | | Deferred tax asset |
| | | | | Deferred tax liability |
| Deferred tax asset | | | | |
| Property, plant and equipment | (20,248,670) | 13,262,765 | 58,616 | (6,927,289) |
| Inventories | 10,449,412 | (478,651) | 28,687 | 9,999,449 |
| Sales return | | | | |
| Employee benefits | | | | |
| Trade receivables | 170,980 | (169,948) | (1,032) | |
| Other items | | | | |
| MAT Credit | | | | |
| Tax assets (Liabilities) | (9,628,278) | 12,614,166 | 86,271 | 3,072,159 |
| Set off tax | | | | |
| Net tax assets | (9,628,278) | 12,614,166 | 86,271 | 3,072,159 |

(e) Movement in deferred tax balances

| | 31 March, 2017 | | | |
|---|------------------------------|---------------------------------|----------------------|-------------------------------------|
| | Net balance April 1, 2016 | Recognised in profit or loss | Recognised in OCI | Others |
| | | | | Net deferred tax asset/liability |
| | | | | Deferred tax asset |
| | | | | Deferred tax liability |
| Deferred tax asset | | | | |
| Property, plant and equipment | (21,389,817) | 663,684 | 477,463 | (20,248,669) |
| Inventories | 10,856,412 | (394,481) | (12,518) | 10,449,413 |
| Trade receivables | 174,921 | | (3,941) | 170,980 |
| Other items | 1,330,658 | (1,345,771) | 15,113 | |
| MAT credit | | | | |
| Tax assets (Liabilities) | (9,027,827) | (1,076,568) | 476,118 | (9,628,276) |
| Offsetting of deferred tax assets and liabilities | | | | |
| Net tax assets | (9,027,827) | (1,076,568) | 476,118 | (9,628,276) |

Realization of net deferred tax assets is dependent upon generation of sufficient taxable income in future years, benefit from the reversal of taxable temporary differences and tax planning strategies. Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. The amount of net deferred tax assets considered realizable is subject to adjustment in future periods if estimates of future taxable income change.

Advanced Enzymes USA, Inc. and Subsidiaries
 Notes to the consolidated financial statements
 (All amounts are stated in Indian Rupees, unless otherwise stated)

| | As at 31 March 2018 | As at 31 March 2017 | As at April 1, 2016 |
|---|------------------------|------------------------|------------------------|
| 13 Current - Other financial liabilities | | | |
| Current maturities of long term loans | - | - | 289,806,410 |
| Payable against business acquisition | 16,261,026 | - | - |
| Other payables | 9,780,418 | 9,922,314 | 5,868,213 |
| | <u>26,041,444</u> | <u>9,922,314</u> | <u>295,674,623</u> |

Advanced Enzymes USA, Inc. and Subsidiaries

Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated)

| | As at 31 March 2018 | As at 31 March 2017 | As at April 1, 2016 |
|-------------------------------------|------------------------|------------------------|------------------------|
| 14 Other current liabilities | | | |
| Advance from customers | 82,507,112 | 6,366,567 | 125,985,812 |
| Other statutory dues | 94,805 | 10,384 | 569,198 |
| | <u>82,601,917</u> | <u>6,376,951</u> | <u>126,555,010</u> |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

| | As at 31 March 2018 | As at 31 March 2017 | As at April 1, 2016 |
|--------------------------|------------------------|------------------------|------------------------|
| 15 Trade payables | | | |
| Total outstanding dues | 76,704,248 | 32,260,397 | 46,691,735 |
| | <u>76,704,248</u> | <u>32,260,397</u> | <u>46,691,735</u> |

(Refer note 25 for payables to related parties)

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

| | As at 31 March 2018 | As at 31 March 2017 | As at 1 April 2016 |
|--|------------------------|------------------------|-----------------------|
| | Short term | Short term | Short term |
| 16 Provisions | | | |
| Provision for employee benefits | 8,757,596 | 7,127,707 | 7,199,110 |
| Provision for product recall expenses | - | - | 3,340,310 |
| | <u>8,757,596</u> | <u>7,127,707</u> | <u>10,539,420</u> |
| Movement for provision of employee benefits during the year: | | | |
| | As at 31 March 2018 | As at 31 March 2017 | As at 1 April 2016 |
| | Short term | Short term | Short term |
| Opening | 7,127,707 | 7,199,110 | - |
| Contribution during the year | (5,469,160) | (7,404,612) | - |
| Provided during the year | 7,089,215 | 7,384,625 | 7,224,872 |
| Foreign exchange currency translation | 9,834 | (51,416) | (25,762) |
| Closing Provision | <u>8,757,596</u> | <u>7,127,707</u> | <u>7,199,110</u> |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

| | For the year ended 31 March 2018 | For the year ended 31 March 2017 |
|---|-------------------------------------|-------------------------------------|
| 17 Revenue | | |
| Revenue from operations | | |
| Sale of products | 1,814,155,097 | 1,730,370,651 |
| Revenue from operations (Net) | <u>1,814,155,097</u> | <u>1,730,370,651</u> |
| 18 Other income | | |
| Interest income | 5,949,011 | - |
| Other non-operating income | 4,963,658 | 3,531,932 |
| | <u>10,912,669</u> | <u>3,531,932</u> |
| 19 Cost of materials consumed | | |
| Opening stock | | |
| Raw materials and components | 179,946,045 | 107,402,787 |
| | <u>179,946,045</u> | <u>107,402,787</u> |
| Add : Purchases during the year | | |
| Raw materials and components | 516,300,730 | 519,739,759 |
| | <u>516,300,730</u> | <u>519,739,759</u> |
| Less : Closing stock | | |
| Raw materials and components | 155,564,112 | 179,946,045 |
| | <u>155,564,112</u> | <u>179,946,045</u> |
| | <u>540,682,663</u> | <u>447,196,501</u> |
| 20 Changes in inventories of finished goods, work-in-progress and traded goods | | |
| Opening stock | | |
| - Manufactured goods | 57,686,033 | 93,138,892 |
| - Work-in-progress | 3,743,106 | 5,369,111 |
| | <u>61,429,139</u> | <u>98,508,003</u> |
| Closing stock | | |
| - Manufactured goods | 81,911,843 | 57,686,033 |
| - Work-in-progress | 1,232,623 | 3,743,106 |
| | <u>83,144,466</u> | <u>61,429,139</u> |
| | <u>(21,715,327)</u> | <u>37,078,864</u> |

21 Employee benefit expense

| | | |
|---|--------------------|--------------------|
| Salaries, wages and bonus | 154,081,015 | 157,389,079 |
| Contribution to defined contribution plan | 7,089,215 | 7,384,625 |
| Payroll taxes | 11,006,054 | 11,067,972 |
| Employee stock compensation expense | 1,217,206 | 198,126 |
| | <u>173,393,490</u> | <u>176,039,802</u> |

22 Finance costs

| | | |
|---------------------------------------|----------|-------------------|
| Interest expenses | - | 17,920,010 |
| Gain on foreign currency transactions | - | (3,950,692) |
| | <u>-</u> | <u>13,969,318</u> |

23 Depreciation and amortisation expense

| | | |
|--|-------------------|-------------------|
| Depreciation of tangible assets (Also, refer note 2) | 27,526,970 | 25,893,365 |
| | <u>27,526,970</u> | <u>25,893,365</u> |

24 Other expenses

| | | |
|--|--------------------|--------------------|
| Utilities | 5,546,202 | 5,158,466 |
| Custom brokers | 3,205,411 | 3,655,309 |
| Rent | 20,658,964 | 14,640,886 |
| Rates and taxes | 2,103,928 | 2,079,621 |
| Repairs and maintenance | 3,536,285 | 8,034,622 |
| Laboratory expenses | 7,987,675 | 5,791,616 |
| Insurance | 10,985,944 | 10,694,619 |
| Printing and stationery | 129,300 | (5,812) |
| Legal and professional fees | 4,466,662 | 9,162,125 |
| Auditors' remuneration | 1,456,511 | 1,516,225 |
| Donation | 80,624 | 100,634 |
| Communication | 2,239,428 | 2,274,809 |
| Travel, conveyance and car hire | 12,522,531 | 9,824,868 |
| Commission | 810,824 | 714,954 |
| Advertisement and sales promotion | 26,827,772 | 12,296,958 |
| Sales tax | 161,152 | 32,840 |
| General expense | 9,261,072 | 10,341,567 |
| IT consulting | 3,604,139 | 3,662,590 |
| Bank charges | 6,566,162 | 4,737,434 |
| Product recall expenses (refer below note) | 0 | 8,825,764 |
| | <u>122,150,589</u> | <u>113,540,095</u> |

Provision for product recall claims

The Company in the month of October 2013, conducted a voluntary recall of its products as the Company based on its laboratory testing discovered that the enzymes it manufactured might contain certain elements which might result into severe medical problems. As a result, various products of the Company were subject to several lawsuits and product liability claims. There were a significant number of claimants who had pending lawsuits or claims regarding the products of the Company seeking consequential damages, as well as related costs, expenses and attorney fees. During the year ended March 31, 2017, the Company settled the last pending claim by paying USD 200,000 (INR 13,417,920) and provision for product recall liability for the year then ended is NIL.

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

25 Related parties

a) Names of related parties

| Relationship | Name |
|--|--|
| Ultimate holding company | Advanced Enzyme Technologies Limited |
| Fellow subsidiaries | Advanced Bio-Agro Tech Limited Advanced EnzyTech Solutions Limited JC Biotech Private Limited Advanced Enzymes Europe B.V (w.c.f. 11 July 2017) |
| Companies in which directors of the Company are able to exercise control or have significant influence | Rathi Properties LLC Vasant and Prabha Rathi Generation Trust |
| Key management personnel (KMP) | Mr. Vasant L. Rathi Mrs. Prabha V. Rathi |
| Relatives of KMP: | Ms. Rachana V. Rathi Ms. Rasika V. Rathi Ms. Reshama V. Rathi |

b) Transactions with related parties

| | For the year ended 31 March 2018 | For the year ended 31 March 2017 |
|--|-------------------------------------|-------------------------------------|
| Purchases of goods | | |
| Advanced Enzyme Technologies Ltd | 317,243,330 | 342,448,791 |
| Sale of goods | | |
| Advanced Enzyme Technologies Ltd | 5,279,854 | 6,788,126 |
| Rent paid | | |
| Rathi Properties LLC | 14,599,813 | 10,391,498 |
| Vasant Rathi | 6,059,152 | 4,249,388 |
| Remuneration to Directors & their relatives | | |
| Prabha V. Rathi | 12,567,244 | 13,082,472 |
| Reshma Rathi | 6,097,220 | 5,387,291 |
| Vasant L. Rathi | 20,494,277 | 24,028,798 |
| Rachana Rathi | 6,097,220 | 5,387,291 |
| Rasika Rathi | 8,902,042 | 7,695,424 |
| Loan received | | |
| Advanced Enzyme Technologies Ltd | - | 400,000,000 |
| Loan given | | |
| Advanced Enzymes Europe B.V. | 229,295,562 | |
| Loan repaid | | |
| Vasant L. Rathi | - | 445,510,625 |
| Rathi Property LLC | - | 79,673,259 |
| Advanced Enzyme Technologies Ltd | - | 400,000,000 |

Advanced Enzymes USA, Inc. and Subsidiaries

Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated)

| | | |
|----------------------------------|-----------|------------|
| Interest income | | |
| Advanced Enzymes Europe B.V. | 5,949,011 | - |
| Interest paid | | |
| Vasant L. Rathi | - | 5,476,865 |
| Rathi Property LLC | - | 980,111 |
| Advanced Enzyme Technologies Ltd | - | 11,463,033 |

c) Balances with related parties

| | As at 31 March 2018 | As at 31 March 2017 |
|----------------------------------|------------------------|------------------------|
| a. Trade receivable | | |
| Advanced Enzyme Technologies Ltd | 1,569,189 | - |
| b. Trade payable | | |
| Advanced Enzyme Technologies Ltd | 63,296,040 | 21,980,285 |
| c. Interest receivable | | |
| Advanced Enzymes Europe B.V. | 6,004,091 | - |
| d. Loan receivable | | |
| Advanced Enzymes Europe B.V. | 234,785,330 | - |

Employee stock options:

During the previous year ended March 31, 2017, the parent Company issued stock options totaling up to 11,500 to two of the employees of the Company. These options are graded options and shall vest as follows:

| Vesting conditions | Vesting proportion |
|--------------------------------------|--------------------|
| After 1 year from the date of grant | 10% |
| After 2 years from the date of grant | 20% |
| After 3 years from the date of grant | 30% |
| After 4 years from the date of grant | 40% |

The date of grant for the above mentioned options is September 15, 2016 and the exercise price of the same is INR 300 and the share price at the date of grant amounts to be INR 1,598.

On the basis of the pronouncements of IND AS 102, the Company has an option to either record the same as liability, payable to the parent Company or the same should be considered as contribution to reserves by the parent Company.

The Company elects to consider the same as contribution made by the parent company. As a result of which, there has been an addition to reserves amounting to \$ 18,887 (INR 1,217,206) in the year March 31, 2018 and \$ 2,339 (INR 198,125) in the year ended March 31, 2017.

Advanced Enzymes USA, Inc. and Subsidiaries

Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated)

26 Acquisition of Biomedic Labs, LLC, USA

On 3 October 2017, the Company acquired certain assets and liabilities of Biomedic Labs, LLC, USA for a purchase consideration of USD 750,000. The Company has accounted for goodwill of USD 630,000 equivalent to INR 40,977,783 on consolidation.

Details of purchase consideration, net assets acquired and goodwill are as follows

| Particulars | In USD | In INR |
|----------------------------|----------------|-------------------|
| Cash paid | 500,000 | 32,731,631 |
| Amounts payable | 250,000 | 16,112,500 |
| Total consideration | 750,000 | 48,844,131 |

| Particulars | In USD | In INR |
|---|----------------|------------------|
| Fair value of the tangible assets acquired- Inventories | 22,000 | 1,442,164 |
| Identifiable intangible assets acquired- Website domain | 98,000 | 6,424,184 |
| Total identifiable net assets acquired | 120,000 | 7,866,348 |

Calculation of goodwill

| Particulars | In USD | In INR |
|--|----------------|-------------------|
| Total consideration | 750,000 | 48,844,131 |
| Less: net identifiable assets acquired | 120,000 | 7,866,348 |
| Goodwill | 630,000 | 40,977,783 |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

27 Capital Management

For the purpose of the Company's capital management, capital includes issued capital and other equity reserves. The primary objective of the Company's Capital Management is to maximise shareholders value. The Company manages its capital structure and makes adjustments in the light of changes in economic environment and the requirements of the financial covenants.

The Company monitors capital using adjusted net debt to equity ratio. For this purpose, adjusted net debt is defined as total debt less cash and bank balances.

| | 31 March 2018 | 31 March 2017 | 1 April 2016 |
|------------------------------------|---------------|---------------|--------------------|
| Non-current borrowings | - | - | 229,454,031 |
| Current borrowings | - | - | 289,806,410 |
| Current maturity of long term debt | - | - | - |
| Gross debt | - | - | 519,260,441 |
| Less - Cash and cash equivalents | - | - | 230,367,662 |
| Adjusted net debt | - | - | 288,892,779 |
| | | | |
| Total equity | 3,243,259,105 | 2,577,051,550 | 2,048,306,539 |
| Adjusted net debt to equity ratio | - | - | 0.14 |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

28 Leases

Operating leases

A. Leases as lessee

The Company has taken certain facilities at Yorba Avenue and Murrieta St. at Chino under non-cancellable operating lease arrangements. The lease can be terminated at the option of either parties by giving due notice. The rental expenses under operating leases "Other expenses" in the statement of profit and loss. The Company does not have any non-cancellable leasing arrangements

| | For the year ended 31 March 2018 | For the year ended 31 March 2017 |
|---|-------------------------------------|-------------------------------------|
| A Disclosures in respect of non-cancellable operating leases | | |
| Payable not later than 1 year | 20,069,387 | 20,892,184 |
| Payable later than 1 year not later than | 55,190,813 | 78,345,690 |
| Total | 75,260,200 | 99,237,874 |
| | | |
| B Amounts recognised in profit or loss | | |
| | 31 March 2018 | 31 March 2017 |
| Lease expense | 20,658,964 | 14,640,886 |
| | 20,658,964 | 14,640,886 |

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
(All amounts are stated in Indian Rupees, unless otherwise stated)

29 Financial instruments

1. Financial instruments – Fair values and risk management

A. Accounting classification and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels. It does not include the fair value information for financial assets and financial liabilities not measured at fair value if their carrying amount is a reasonable approximation of fair value.

| | Carrying amount | | | | Fair value | | | | |
|------------------------------|-----------------------|--------|----------------|----------------|---|---|---|---|-------|
| | March 31, 2018 INR | FVTPL | FVTOCI | Amortised Cost | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Financial assets | | | | | | | | | |
| Trade receivables | - | - | - | 91,749,951 | 91,749,951 | - | - | - | - |
| Cash and cash equivalents | - | - | - | 588,885,295 | 588,885,295 | - | - | - | - |
| Loans | - | - | - | 234,785,330 | 234,785,330 | - | - | - | - |
| | - | - | - | 915,420,576 | 915,420,576 | - | - | - | - |
| Financial liabilities | | | | | | | | | |
| Trade payables | - | - | - | 76,704,248 | 76,704,248 | - | - | - | - |
| Other financial Liabilities | - | - | - | 26,041,444 | 26,041,444 | - | - | - | - |
| | - | - | - | 102,745,692 | 102,745,692 | - | - | - | - |
| | | | | | | | | | |
| | Carrying amount | | | | Fair value | | | | |
| March 31, 2017 INR | FVTPL | FVTOCI | Amortised Cost | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total | |
| Financial assets | | | | | | | | | |
| Trade receivables | - | - | 77,738,266 | 77,738,266 | - | - | - | - | |
| Cash and cash equivalents | - | - | 57,273,057 | 57,273,057 | - | - | - | - | |
| | - | - | 135,011,323 | 135,011,323 | - | - | - | - | |
| Financial liabilities | | | | | | | | | |
| Trade payables | - | - | 32,260,397 | 32,260,397 | - | - | - | - | |
| Other financial Liabilities | - | - | 9,922,314 | 9,922,313 | - | - | - | - | |
| | - | - | 42,182,711 | 42,182,711 | - | - | - | - | |

| | Carrying amount | | | | Fair value | | |
|------------------------------|-----------------|--------|--------------------|--------------------|---|---|---|
| | FVTPL | FVTOCI | Amortised Cost | Total | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| April 1, 2016 | | | | | | | |
| INR | | | | | | | |
| Financial assets | | | | | | | |
| Trade receivables | - | - | 67,477,450 | 67,477,450 | - | - | - |
| Cash and cash equivalents | - | - | 230,367,662 | 230,367,662 | - | - | - |
| | - | - | 297,845,112 | 297,845,112 | - | - | - |
| Financial liabilities | | | | | | | |
| Borrowings - Non current | - | - | 229,454,031 | 229,454,031 | - | 229,454,031 | - |
| Trade payables | - | - | 46,691,735 | 46,691,735 | - | - | - |
| Other financial Liabilities | - | - | 295,674,624 | 295,674,624 | - | - | - |
| | - | - | 571,820,390 | 571,820,390 | - | 229,454,031 | - |
| | | | | | | | 229,454,031 |

B. Measurement of fair values

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used:

Financial instruments measured at fair value

| Type | Valuation technique |
|---|---|
| Non current financial assets / liabilities measured at amortised cost | Discounted cash flow technique : The valuation model considers present value of expected payments discounted using an appropriate discounting rate. |

C. Financial risk management

The Company has exposure to the following risks arising from financial instruments:

- Credit risk ;
- Liquidity risk ; and
- Market risk

i. Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board of directors has established the Risk Management Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee reports regularly to the board of directors on its activities

The Company's risk management policies are established to identify, and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements
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Financial instruments – Fair values and risk management (continued)

ii. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business. The Company establishes an allowance for doubtful debts and impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the customer, including the default risk of the industry and country in which the customer operates, also has an influence on credit risk assessment. Credit risk is managed through credit approvals, establishing credit limits and continuously monitoring the creditworthiness of customers to which the Company grants credit terms in the normal course of business.

There is no concentration of risk for trade receivables.

Summary of the Company's exposure to credit risk by age of the outstanding from various customers is as follows:

| | 31 March 2018 | | |
|--------------------|-------------------|----------------------------|----------------|
| | Carrying Amount | Weighted Average Loss Rate | Loss Allowance |
| Not due | 57,198,330 | 0.00% | - |
| 0-90 days | 34,551,621 | 0.00% | - |
| 90-180 days | - | 0.00% | - |
| 180-270 days | - | 0.00% | - |
| 270-360 days | - | 0.00% | - |
| More than 360 days | - | 0.00% | - |
| | <u>91,749,951</u> | | <u>-</u> |

| | 31 March 2017 | | |
|--------------------|-------------------|----------------------------|----------------|
| | Carrying Amount | Weighted Average Loss Rate | Loss Allowance |
| Not due | 54,738,735 | 0.00% | - |
| 0-90 days | 22,203,654 | 0.00% | - |
| 90-180 days | 765,268 | 0.00% | - |
| 180-270 days | 30,609 | 0.00% | - |
| 270-360 days | - | 0.00% | - |
| More than 360 days | - | 0.00% | - |
| | <u>77,738,266</u> | | <u>-</u> |

| | 1 April 2016 | | |
|--------------------|-------------------|----------------------------|----------------|
| | Carrying Amount | Weighted Average Loss Rate | Loss Allowance |
| Not due | 11,958,487 | 0.00% | - |
| 0-90 days | 15,824,468 | 0.00% | - |
| 90-180 days | 39,694,495 | 0.00% | - |
| 180-270 days | - | 0.00% | - |
| 270-360 days | - | 0.00% | - |
| More than 360 days | - | 0.00% | - |
| | <u>67,477,450</u> | | <u>-</u> |

The Company allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of loss (e.g. timeliness of payments, available press information etc.) and applying experienced credit judgement.

Exposures to customers outstanding at the end of each reporting period are reviewed by the Company to determine incurred and expected credit losses. Historical trends of impairment of trade receivables do not reflect any significant credit losses. Given that the macro economic indicators affecting customers of the Company have not undergone any substantial change, the Company expects the historical trend of minimal credit losses to continue.

The Company's exposure to credit risk for trade receivables by geographic region is as follows:

| Region | For the year ended as at 31 March | | |
|--------|-----------------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| USA | 86,748,222 | 75,528,468 | 61,998,352 |
| Asia | 2,655,237 | - | 5,479,098 |
| Europe | 978,765 | 410,712 | - |
| Others | 1,367,727 | 1,799,086 | - |
| | <u>91,749,951</u> | <u>77,738,266</u> | <u>67,477,450</u> |

Cash and cash equivalents

The Company held cash and cash equivalents of INR 588,885,295 at March 31, 2018 (March 31, 2017: INR 57,273,057, April 1, 2016 : INR 230367062). The cash and cash equivalents are held with bank and financial institution counterparties with good credit ratings.

Other than trade and other receivables, the Company has no other financial assets that are past due but not impaired

Advanced Enzymes USA, Inc. and Subsidiaries
Notes to the consolidated financial statements

(All amounts are stated in Indian Rupees, unless otherwise stated)

Financial instruments – Fair values and risk management (continued)

iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Exposure to liquidity risk:

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments

| | Carrying amount | Contractual cash flows | | | |
|-----------------------------|-----------------|------------------------|-------------|-----------|-------------------|
| | | Total | Upto 1 year | 1-3 years | 3-5 years |
| March 31, 2018 | | | | | More than 5 years |
| Trade payable | 76,704,248 | 76,704,248 | 76,704,248 | - | - |
| Other financial liabilities | 26,041,444 | 26,041,444 | 26,041,444 | - | - |
| March 31, 2017 | | | | | More than 5 years |
| Trade payable | 32,260,397 | 32,260,397 | 32,260,397 | - | - |
| Other financial liabilities | 9,922,314 | 9,922,314 | 9,922,314 | - | - |
| April 1, 2016 | | | | | More than 5 years |
| Long term borrowings | 229,454,031 | 229,454,031 | 229,454,031 | - | - |
| Trade payable | 46,691,735 | 46,691,735 | 46,691,735 | - | - |
| Other financial liabilities | 295,674,623 | 295,674,623 | 295,674,623 | - | - |

Advanced Enzymes USA, Inc. and Subsidiaries
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30 Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit for the year attributable to equity holders by the weighted average number of Equity shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the profit attributable to equity holders by the weighted average number of Equity shares outstanding during the year plus the weighted average number of Equity shares that would be issued on conversion of all the dilutive potential Equity shares into Equity shares.

i. Profit attributable to Equity holders

| | March 31, 2018 | March 31, 2017 |
|--|----------------|----------------|
| Profit attributable to equity holders from continuing operations | 649,443,367 | 591,903,805 |

ii. Weighted average number of ordinary shares

| | March 31, 2018 | March 31, 2017 |
|--|----------------|----------------|
| Issued ordinary shares at April 1 | 5,839 | 5,839 |
| Effect of fresh issue of shares for cash | - | - |
| Weighted average number of shares at March 31 for basic EPS | 5,839 | 5,839 |

Basic and Diluted earnings per share

| | March 31, 2018 | March 31, 2017 |
|----------------------------|----------------|----------------|
| Basic earnings per share | 111,225 | 101,371 |
| Diluted earnings per share | 111,225 | 101,371 |

Advanced Enzymes USA, Inc. and Subsidiaries
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31 Segment reporting

Primary segment

The Company operates only in one primary business segment viz. 'manufacturing and sales of enzymes' and hence no separate information for primary segment wise disclosure is required.

Secondary segment (based upon geography)

| | Year ended 31 March 2018 | Year ended 31 March 2017 | |
|---|-----------------------------|-----------------------------|----------------------|
| Segment revenue (based upon location of customers) | | | |
| Outside USA | 65,802,426 | 50,646,765 | |
| Within USA | 1,748,352,671 | 1,679,723,886 | |
| | <u>1,814,155,097</u> | <u>1,730,370,651</u> | |
| | 31 March 2018 | 31 March 2017 | 1 April 2016 |
| Segment assets (based upon location of assets) | | | |
| Outside USA | - | - | - |
| Within USA | 2,289,149,824 | 2,253,318,414 | 2,307,294,317 |
| | <u>2,289,149,824</u> | <u>2,253,318,414</u> | <u>2,307,294,317</u> |
| Capital expenditure | | | |
| Outside USA | - | - | - |
| Within USA | 9,035,776 | 23,886,455 | 88,192,367 |
| | <u>9,035,776</u> | <u>23,886,455</u> | <u>88,192,367</u> |

Advanced Enzymes USA, Inc. and Subsidiaries
 Notes to the consolidated financial statements
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32. Impairment testing of Goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| Particulars | 31 March 2018 | 31 March 2017 | 1 April 2016 |
|---------------------------|----------------------|----------------------|----------------------|
| Advanced Enzymes USA, Inc | 2,203,173,728 | 2,155,364,714 | 2,205,038,233 |
| | <u>2,203,173,728</u> | <u>2,155,364,714</u> | <u>2,205,038,233</u> |

The recoverable amount of this CGU was based on fair value less costs of disposal, estimated using discounted cash flows. The fair value measurement was categorised as a Level 3 fair value based on inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

| Particulars | 31 March 2018 | 31 March 2017 | 1 April 2016 |
|----------------------------|---------------|---------------|--------------|
| Discount rate | 8% | 8% | 8% |
| Terminal value growth rate | 5% | 5% | 5% |
| Sales growth rate | 10% | 10% | 10% |

The discount rate for was post tax measure estimated based on the weighted-average cost of capital.

The cash flow projections include specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate has been determined based on management's estimate of the long-term business growth rate, consistent with the assumptions that a market participant would make.

Sales growth rate has been considered based on past performance duly adjusted with new sales mix as envisaged by the management.

With regard to assessment of value in use, no reasonably possible change in any of the above key assumptions would cause the carrying amount of the CGU's to exceed their recoverable amount.

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33 Transition to Ind AS:

For the purposes of reporting, we have transitioned our basis of accounting from Indian generally accepted accounting principles ("IGAAP") to Ind AS. The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2018, the comparative information presented in these financial statements for the year ended 31 March 2017 and in the preparation of an opening Ind AS balance sheet at 1 April 2016 (the "transition date").

In preparing our opening Ind AS balance sheet, we have adjusted amounts reported in financial statements prepared in accordance with IGAAP. An explanation of how the transition from IGAAP to Ind AS has affected our financial performance, cash flows and financial position is set out in the following tables and the notes that accompany the tables. On transition, we did not revise estimates previously made under IGAAP except where required by Ind AS.

Reconciliation of net worth:

| Particulars | Footnote ref. | As on 1 April 2016 | As on 31 March 2017 |
|--------------------------------------|---------------|--------------------|---------------------|
| | | INR | INR |
| Net worth under IGAAP | | 1,545,539,507 | 2,568,145,557 |
| Summary of Ind AS adjustments | | | |
| Deferred tax on unrealised profits | 1 | 7,258,485 | 8,905,993 |
| FCTR on Goodwill | 3 | (95,508,517) | - |
| Total Ind AS adjustments | | 502,767,032 | 8,905,993 |
| Net worth under Ind AS | | 2,048,306,539 | 2,577,051,550 |

Reconciliation of Comprehensive income for the year ended on 31 March 2017

| Particulars | Footnote ref. | As on 31 March 2017 |
|--------------------------------------|---------------|---------------------|
| | | INR |
| Comprehensive income under IGAAP | | 590,454,420 |
| Summary of Ind AS adjustments | | |
| Deferred tax on unrealised profits | 1 | 1,647,510 |
| Others | | (198,126) |
| Total Ind AS adjustments | | 1,449,384 |
| Comprehensive income under Ind AS | | 591,903,804 |

Notes to the reconciliation:

1 Deferred tax on unrealised profits

Under Ind AS, unrealised profits and losses eliminated on intragroup transfer of inventories gives rise to a temporary difference, that will reverse when the inventory is sold outside the group. Deferred tax is created on such temporary difference.

2 Revenue

Under Ind AS, revenue is recognised at the fair value of the consideration received or receivable, after deduction of any trade discounts, volume rebates and any taxes or duties collected on behalf of the government such as sales tax and value added tax except excise duty. Discounts given include rebates and incentives given to customers which have been reclassified from other expenses under Previous GAAP and netted from revenue under Ind AS.

3 FCTR on Goodwill Translation

Under Ind AS, Goodwill related to a foreign operation are treated as assets and liabilities of the foreign operation and they are considered to be expressed in the functional currency of the foreign operation (and not the holding company) and are translated at the exchange rate at the reporting date

34 B. Exemptions and exceptions availed

B.1 Ind AS mandatory exceptions

B.1.1 Estimates

The estimates at 1st April 2016 and 31st March 2017 are consistent with those made for the same dates in accordance with the Indian GAAP (after adjustments to reflect any differences if any, in accounting policies). The Company has made estimates for following items in accordance with Ind AS at the date of transition as these were not required under previous GAAP:

1. Investment in equity instruments carried at FVTPL;
2. Determination of the discounted value for financial instruments carried at amortised cost.

B.1.2 De-recognition of financial assets and liabilities

Ind AS 101 requires a first-time adopter to apply the de-recognition provisions of Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS. However, Ind AS 101 allows a first-time adopter to apply the de-recognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

The Company has elected to apply the de-recognition provisions prospectively

B.1.3 Classification and measurement of financial assets

The Company has classified and measured the financial assets on the basis of the facts and circumstances that exist at the date of transition to Ind AS.

B.2 Ind AS optional exemptions

B.2.1 Deemed cost

The Company has elected to continue with the carrying value for all of its property, plant and equipment and intangible assets as recognised in the financial statements as the deemed cost at the date of transition to Ind AS, measured as per the previous GAAP.

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35 Subsequent Events

The company has evaluated all events and transactions that occurred after March 31, 2018 through May 17, 2018; the date the financial statements are issued. Based on the evaluation, the company is not aware of any events or transactions that would require recognition or disclosure in the financial statements.

For KNAV P.A.
Certified Public Accountants

Atul Deshmukh
Atul Deshmukh, CPA
Engagement Partner
Licensed in Georgia
Place : Atlanta, Georgia
Date: May 17, 2018

For and on behalf of Board of Directors of Advanced
Enzyme, USA Inc. and subsidiaries


V. L. Rathi C. L. Rathi
Director Director
Place : Chino Place : Thane
Date: May 17, 2018 Date: May 17, 2018