

Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Financial statements

March 31, 2023 and 2022

(With the Independent Auditors' Report Thereon)





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Independent Auditors' Report

The Board of Directors and Stockholders
Laboratorios Torrent, S. A. de C. V.:

Opinion

We have audited the financial statements of Laboratorios Torrent, S. A. de C. V. (the Company), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Laboratorios Torrent, S. A. de C. V. as at March 31, 2023 and 2022, and its results and its cash flows for the years then ended, in accordance with Mexican Financial Reporting Standards (FRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As described in note 3(m) to the accompanying financial statements, the sales carried out with five main customers represented approximately 83% and 77%, in 2023 and 2022, respectively; the main supplier is its parent company, from which the Company made 97% of the Company's total purchases of finished goods. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with FRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG CARDENAS DOSAL, S. C.



Rodrigo López

Mexico City, April 26; 2023.



Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Statements of financial position

March 31, 2023 and 2022

(Mexican pesos)

Assets	<u>2023</u>	<u>2022</u>	Liabilities and stockholders' equity	<u>2023</u>	<u>2022</u>
Current assets:			Current liabilities:		
Cash (note 4)	\$ 81,421,827	60,442,930	Lease Liability (note 14)	\$ 3,888,950	4,946,198
Accounts receivables, net (note 7)	41,044,815	29,928,808	Trade accounts payable	778,700	601,681
Other receivables (note 9)	19,206,689	13,510,738	Other liabilities	6,947,769	1,708,697
Inventories, net (note 10)	24,713,636	14,861,522	Accruals (note 13)	14,128,263	11,114,568
Prepayments (note 11)	<u>3,276,435</u>	<u>3,893,240</u>	Employee statutory profit sharing Torrent Pharmaceuticals Limited, parent company (note 8)	7,911,686	6,275,071
Total current assets	169,663,402	122,637,238		<u>2,501,626</u>	<u>11,187,449</u>
Furniture, equipment and leasehold improvements, net (note 12)	3,618,073	4,187,475	Total current liabilities	36,156,994	35,833,664
Other assets	2,139,070	1,716,963	Lease liability , excluding current lease liability (note 14)	9,450,963	1,816,187
Right of use Property, plant and equipment (note 14)	12,992,347	6,359,738	Employee benefits (note 15)	<u>9,874,003</u>	<u>7,932,721</u>
Deferred Income Tax (note 16)	22,727,971	14,702,789	Total liabilities	<u>55,481,960</u>	<u>45,582,572</u>
			Stockholders equity (note 17)	74,741,000	74,741,000
			Accumulated result	83,927,412	31,296,121
			OCI	<u>(3,009,509)</u>	<u>(2,015,490)</u>
			Total Stockholders' equity	155,658,903	104,021,631
			Commitment and contingencies (note 19)		
	<u>\$ 211,140,863</u>	<u>149,604,203</u>		<u>\$ 211,140,863</u>	<u>149,604,203</u>

See accompanying notes to financial statements.



Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Statements of Comprehensive Income

Years ended March 31, 2023 and 2022

(Mexican pesos)

	<u>2023</u>	<u>2022</u>
Net revenue (note 18)	\$ 287,114,572	227,166,151
Cost of goods sold (notes 8 and 18)	<u>63,095,773</u>	<u>55,492,496</u>
Gross profit	224,018,799	171,673,655
General expenses (notes 8 and 18)	<u>163,196,195</u>	<u>136,191,064</u>
Other income, net	<u>2,707,922</u>	<u>741,668</u>
Operating income	<u>63,530,526</u>	<u>36,224,259</u>
Financial result:		
Interest income	4,110,946	1,627,784
Foreign exchange gain (loss), net	<u>(74,039)</u>	<u>21,473</u>
Financial result, net	<u>4,036,907</u>	<u>1,649,257</u>
Net income before income tax expenses	67,567,433	37,873,516
Income taxes (note 16)		
Current	22,961,324	15,446,031
Deferred	<u>(8,025,182)</u>	<u>(3,411,164)</u>
Total income taxes	<u>14,936,142</u>	<u>12,034,867</u>
Net income	<u>52,631,291</u>	<u>25,838,649</u>
Other Comprehensive Income - Resmesurment of employee benefits (note 15)	<u>(994,019)</u>	<u>838,591</u>
Comprehensive income	<u>\$ 51,637,272</u>	<u>26,677,240</u>

See accompanying notes to financial statements.



Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Statements of changes in stockholders' equity

Years ended March 31, 2023 and 2022

(Mexican pesos)

	Capital stock	Retainig earnings (deficit)	Other Comprehensive Income	Total stockholders' equity
Balances as of April 1, 2021	\$ 74,741,000	5,457,472	(2,854,081)	77,344,391
Net comprehensive Income (Loss)	-	-	838,591	838,591
Net income	<u>-</u>	<u>25,838,649</u>	<u>-</u>	<u>25,838,649</u>
Balances as of March 31, 2022	74,741,000	31,296,121	(2,015,490)	104,021,631
Net comprehensive Income (Loss)	-	-	(994,019)	(994,019)
Net income	<u>-</u>	<u>52,631,291</u>	<u>-</u>	<u>52,631,291</u>
Balances as of March 31, 2023	<u>\$ 74,741,000</u>	<u>83,927,412</u>	<u>(3,009,509)</u>	<u>155,658,903</u>

See accompanying notes to financial statements.



Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Statements of cash flows

Years ended March 31, 2023 and 2022

(Mexican pesos)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net income (loss)	\$ 67,567,433	37,873,518
Items relating to investing activities:		
Depreciation y amortization	1,209,988	937,834
Depreciation of ROU	5,641,167	5,363,992
Interest on lease	600,789	525,832
Gain on sale of furniture and equipment	-	-
Interest income	<u>(4,110,946)</u>	<u>(1,627,783)</u>
Subtotal	70,908,431	43,073,393
Accounts receivable	(11,116,008)	88,281
Accounts receivable from parent company	-	1,697,396
Other receivables	(5,695,951)	(2,526,153)
Inventories	(9,852,114)	(1,732,641)
Prepayments	616,805	(693,628)
Trade accounts payable	177,018	(1,285,384)
Other liabilities	396,453	61,946
Accruals	3,013,695	2,475,840
Income taxes paid	(18,118,702)	(18,868,021)
Changes in direct employee benefits and employee statutory profit sharing paid	2,583,878	3,295,822
Accounts payable to parent company	<u>(8,685,823)</u>	<u>(2,363,921)</u>
Net cash provided by operating activities	<u>24,227,682</u>	<u>23,222,930</u>
Cash flows from investing activities:		
Capital expenditures	(640,586)	(1,029,114)
(Increase) decrease in other non-current assets	(422,107)	(597,801)
Payment on lease obligation	(6,297,038)	(5,884,136)
Interest received	<u>4,110,946</u>	<u>1,627,783</u>
Net cash received from (used in) investing activities	<u>(3,248,785)</u>	<u>(5,883,268)</u>
Net increase in cash and cash equivalents	20,978,897	17,339,662
Cash and cash equivalents:		
At beginning of year	<u>60,442,930</u>	<u>43,103,269</u>
At end of year	<u>\$ 81,421,827</u>	<u>60,442,930</u>

See accompanying notes to financial statements.



Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

For the years ended March 31, 2023 and 2022

(Mexican pesos)

(1) Description of business-

Laboratorios Torrent, S. A. de C. V. (the Company) is a company incorporated under the laws of Mexico. The Company's address is Av. Insurgentes Sur No. 2453, 8th floor, Col. Tizapan, zip code 01090, in Mexico City. The Company is a subsidiary of Torrent Pharmaceuticals Limited, with which it carries out all of the transactions described in note 8.

The Company principally is involved in the import, commercialization and distribution of pharmaceuticals products and operates primarily in Mexico City.

(2) Financial statement authorization and presentation-

Authorization

On April 26, 2023, Mr. Jorge Barreto, General Director and Mr. Ketan Bharatbhai Shah, Chief Financial Officer, authorized the issuance of the accompanying financial statements and related notes thereto.

The accompanying financial statements were prepared considering the reporting period of its Parent Company which is comprised from April 1st to March 31st. Therefore, these financial statements will be used by its Parent Company for consolidation purposes only. The Company prepares financial statements to comply with certain legal and tax requirements in Mexico, considering its normal operation cycle, which comprises from January 1st to December 31st of each fiscal year.

In accordance with the General Corporations Law and the bylaws of Laboratorios Torrent, S. A. de C. V., the stockholders are empowered to modify the financial statements after issuance. The accompanying financial statements will be submitted to the next Stockholders' Meeting for approval.

Basis of preparation

a) Statement of compliance

The accompanying financial statements have been prepared in accordance with Mexican Financial Reporting Standards (Mex FRS).

b) Use of estimates and judgments

The preparation of financial statements requires Management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Assumptions and estimation uncertainties.

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Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

(Mexican pesos)

Information about assumptions and estimation uncertainties as of March 31, 2022 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the notes mentioned in the following notes:

- Note 3(l) – revenue recognition: estimate of discounts and expected returns.
- Note 14 – leases: whether an arrangement contains a lease.
- Note 15 – measurement of defined benefit obligations: key actuarial assumptions.
- Note 16 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized.

Measurement of fair values

A number of 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.

c) Functional and reporting currency

The aforementioned financial statements are presented in Mexican pesos (reporting currency), which is the same as the local currency and the functional currency.

For purposes of disclosure, “pesos” or “\$” means Mexican pesos, and “dollars” or “US\$” means U. S. dollars.

d) Statement of income presentation

The Company opted for reporting comprehensive income in a single statement that includes all the items that comprise net income, other comprehensive income (OCI) and equity in the OCI of investees, entitled “Statement of Comprehensive Income”

Given that the Company is an commercial, ordinary costs and expenses are presented based on their function, to arrive at the gross profit margin. Additionally, the “Operating income” line item is included, which results from subtracting the cost of goods sold and expenses from net sales, as this line item is considered to provide a better understanding of the Company's economic and financial performance. Furthermore, the “Other income, net” line item is included as it is deemed convenient for reporting amounts of activities other than the Company's operating activities.

(3) Summary of significant accounting policies-

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

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Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

(Mexican pesos)

(a) Cash-

Cash consist of checking accounts, foreign currency and other highly liquid instruments. At the date of the financial statements, interest income and foreign exchange gains and losses are included in the statement of comprehensive income.

(b) Financial instruments-

i. Recognition and initial measurement

Financial assets and liabilities - including accounts receivable and payable - are initially recognized when these assets are originated or acquired, or when these liabilities are issued or assumed, both contractually.

Financial assets and financial liabilities (unless it is an account receivable or payable without a significant financing component) are measured and initially recognized at fair value, in the case of financial assets or liabilities not measured at fair value with changes through OCI, plus the transaction costs directly attributable to acquisition or issuance, when subsequently measured at amortized cost. An account receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets

Upon initial recognition, financial assets are classified in the following categories, according to the business model and the characteristics of the contractual cash flows therefrom, as follows:

- Accounts receivable, which includes *accounts receivable* derived from the sale of goods and services and *other accounts receivable* derived from activities other than the sale of goods and services.

The classification of financial assets is based on both the business model and the characteristics of the contractual cash flows therefrom. According to the business model, a financial asset or a class of financial assets (a portfolio), can be managed under:

- A model that seeks to recover contractual cash flows (consisting of principal and interest).
- A business model that seeks, both the recovery of contractual cash flows as in the previous model as well as obtaining profit through the sale of financial assets, necessitating a combined management model for these financial assets.
- A model that seeks maximum return through the purchase and sale of financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified to the new category at the time the change in the business model has occurred.

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Notes to financial statements

(Mexican pesos)

The reclassification of investments in financial instruments between categories is applied prospectively as of the date of change in the business model, without modifying any previously recognized income, such as interest or impairment losses.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not classified as measured at fair value through income:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. (Only Payment of the Principal and Interest, or SPPI for its initials).

All financial assets not classified as measured at amortized cost or fair value through OCI as described above are measured at fair value through income. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at fair value through OCI as at fair value through income if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets - Business model assessment:

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated- e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Company's continuing recognition of the assets,

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Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

(Mexican pesos)

Financial liabilities - Classification, subsequent measurement and gains and losses

Financial liabilities are initially recognized at fair value and subsequently are measured at amortized cost. Interest income and gains and losses on translation of foreign currency are recognized in income. Any gain or loss on derecognition of accounts is recognized in income.

Derecognition

Financial assets

The Company derecognizes 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 it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognized.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in income.

iv. Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position 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.

v. Impairment

Financial instruments

The Company recognizes loss allowances for ECLs on: financial assets measured at amortized cost.

The Company measures loss allowances at an amount equal to lifetime ECLs.

(Continued)



Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

(Mexican pesos)

Loss allowances for trade receivable and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, except in cases where the Company has information that the risk has not increased significantly.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due, or when the Company has reasonable and supported information to consider that a longer term is a more appropriate criterion.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, about past events, current conditions and forecasts of future economic conditions.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 30 days past due, based on historical experience of recoveries of similar assets. For corporate customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

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Notes to financial statements

(Mexican pesos)

(c) Inventories and cost of sales-

Inventories are measured at the lower of cost and net realizable value. The cost is determined using the acquisition cost.

Unit cost is determined using the formula of average cost.

Cost of sales represents the cost of inventories at the time of sale, increased, as applicable, for reductions in the net realizable value of inventories during the year.

The Company records the necessary allowances for inventory impairment arising from damaged, obsolete or slow-moving inventories or any other reason indicating that the carrying amount will exceed the future revenues expected from use or realization of the inventory items.

(d) Prepayments-

Mainly include prepayments for services that are received after the date of the statement of financial position and in the ordinary course of operations.

(e) Furniture, equipment and leasehold improvements-

Furniture and equipment are recorded at acquisition cost.

Depreciation on furniture and equipment is calculated on the straight-line method over the estimated useful lives of the assets as determined by the Company's Management. The annual depreciation rates of the principal asset classes are as shown as follows:

	Useful life Years	Rates of depreciation
Computer equipment	3	30%
Office furniture and equipment	10	10%
Lease Hold improvement	10	10%

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Minor repairs and maintenance costs are expensed as incurred.

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Laboratorios Torrent, S. A. de C. V.
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Notes to financial statements

(Mexican pesos)

(f) Leases-

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Company uses the definition of a lease in FRS D-5

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for leases of property, machinery and transport equipment in which you are a lessee, the Company has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises present value of lease payment includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;

The lease liability is measured at amortized cost using the effective interest method. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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Laboratorios Torrent, S. A. de C. V.
(Subsidiary of Torrent Pharmaceuticals Limited)

Notes to financial statements

(Mexican pesos)

The Company presents right-of-use assets that do not meet the definition of investment property in lease assets and lease liabilities in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As of March 31, 2023, no contracts qualifying as low value were identified.

(g) Other assets-

Other assets include mainly guaranty deposits and are stated at cost.

(h) Impairment of furniture, equipment and leasehold improvements

The Company evaluates the net carrying amount of furniture and equipment and other non-current assets, to determine whether there is an indication that the carrying amount exceeds the recoverable amount. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net revenues reasonably expected to be generated by the asset. If the net carrying amount of the asset exceeds the recoverable amount, the Company records the necessary provisions.

(i) Accruals-

Based on Management's estimates, the Company recognizes accruals for present obligations where the transfer of assets or the rendering of services is virtually inevitable and arises as a consequence of past events, principally salaries and other payments to personnel, fees and others which, as applicable, are recorded at present value.

(j) Employee benefits-

Short-term direct benefits

Short-term direct employee benefits are recognized in income of the period in which the services rendered are accrued. A liability is recognized for the amount expected to be paid if the Company has a legal or assumed obligation to pay this amount as a result of past services provided and the obligation can be reasonably estimated.

(Continued)



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Post-Employment Benefits

Defined benefit plans

The Company's net obligation in relation to defined benefit plans for seniority premium and severance payments is calculated separately for each plan, estimating the amount of future benefits that employees have earned in the current and prior periods, and discounting this amount to its present value.

The obligations for defined benefit plans are calculated annually by actuaries using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of the economic benefits available in the form of future refunds of the plan or reductions in future contributions thereto. To calculate the present value of economic benefits, any minimum financing requirement should be considered.

The labor cost of current service, which represents the periodic cost of employee benefits for having completed one more year of working life based on the benefit plans, is recognized in operating expenses. Modifications to the plans that affect past service cost are recognized in income immediately in the year the modification occurs, with no possibility of deferral in subsequent years. Furthermore, the effects of events of liquidation or reduction of obligations in the period that significantly reduce future service cost and/or significantly reduce the population eligible for benefits, are recognized in income of the period.

Remeasurements (before actuarial gains and losses), resulting from differences between the projected and actual actuarial assumptions at the end of the period, are recognized when incurred in income of the period.

(k) Income Tax (IT) and Employee Statutory Profit Sharing (ESPS)-

IT and ESPS payable for the year are determined in conformity with the tax regulations in effect.

Deferred IT and ESPS are accounted for under the asset and liability method. Deferred taxes and ESPS assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of IT, for operating loss carryforwards and other recoverable tax credits. Deferred tax and ESPS assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax and ESPS assets and liabilities of a change in tax rates is recognized on the statement of comprehensive income in the period that includes the enactment date.

Current and deferred income taxes and ESPS are presented and classified in the results of operations of the period.

(Continued)



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(I) Revenue from contracts with customers-

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Type of product/ service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Medicines	<p>Customers obtain control of products when the goods are delivered to and have been accepted at their premises.</p> <p>Invoices were recorded at the time of acceptance of the good. Invoices are generally payable within the first 30 days. Discounts are offered for newly launched products on the market.</p> <p>Some contracts allow the customer to return items. Returned goods are independently exchanged for new products. Cash refund is not offered.</p> <p>General discount , prompt payment discount, offers , conditions for return, etc. grated to customers depending on negotiation with each customer .</p>	<p>Revenue is recognized when the goods are delivered and have been accepted by customers at their premises. For contracts that permit the customer to return an item, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns which are estimated based on the historical data of products . In these circumstances, a refund liability and a right to recover returned goods asset are recognized.</p> <p>The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods.</p> <p>The refund liability is included in other payables and the right to recover returned goods is included in inventory.</p> <p>The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.</p>
Providing services	<p>The company performs the renewal of records, quality analysis and translations of materials used in Bio-equivalency. Invoices for services are issued quarterly and are usually payable within 150 days</p> <p>This service has been cancelled in July 2021.</p>	<p>Revenue is recognized over time as the services are provided.</p>

(Continued)



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(m) Business and credit concentration-

Sales made to Farmacos Nacionales, S. A. de C. V., Nadro, S. A. P. I de C. V., Rama Farmaceutica, S. A. de C. V., Farmacias Guadalajara, S. A. de C. V. and Casa Marzan, S. A. de C. V., represented 83 % in 2023 and 77% en 2022, of the Company's net sales.

The main supplier is Torrent Pharmaceuticals Ltd, parent company, from which the Company made the 100% of the total purchases to finished goods in 2023 and 2022.

(n) Financial results (FR)-

The FR includes interest income and expense, and foreign exchange gains and losses.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of execution or settlement. Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in force at the statement of financial position date. Exchange differences arising from assets and liabilities denominated in foreign currencies are reported on the statement of operations.

(o) Contingencies-

Liabilities for loss contingencies are recorded when it is probable that a liability has been incurred and the amount thereof can be reasonably estimated. When a reasonable estimation cannot be made, disclosure is provided in the notes to the financial statements. Contingent revenues, earnings or assets are not recognized until realization is assured.

(p) Measurement at fair value

The 'fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the main market or, in its absence, in a more advantageous market. to which the Company has access on that date. The fair value of a liability reflects its risk of default.

Some of the Company's accounting policies and disclosures require the measurement of the fair values of both financial and non-financial assets and liabilities (see note 3 (b)).

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is considered 'active' if transactions in assets or liabilities take place frequently and in sufficient volume to provide price information on a continuous basis.

If there is no quoted price in an active market, the Company uses valuation techniques that maximize the use of relevant observable input data and minimize the use of unobservable input data. The chosen valuation technique incorporates all the factors that market participants would consider when setting the price of a transaction.

(Continued)



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If an asset or liability measured at fair value has a buyer price and a seller price, the Company measures assets and long positions at a buyer price and liabilities and short positions at a seller price.

Normally the best evidence of the fair value of a financial instrument in the initial recognition is the transaction price, that is, the fair value of the consideration delivered or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value does not have a quoted price in an active market for an identical asset or liability, nor is it based on a valuation technique for which it is considered that unobservable input data is insignificant relative to measurement, the financial instrument is initially measured at fair value, adjusted to defer the difference between fair value at initial recognition and the transaction price. This difference is subsequently recognized in profit or loss using an appropriate basis over the life of the instrument, but never after the moment in which the valuation is fully supported by observable market data or the transaction has concluded.

(4) Cash-

Cash comprise the following:

	2023	2022
Petty cash	\$ 5,013	5,013
Bank	3,614,411	677,702
Investments	77,802,403	59,760,215
	\$ 81,421,827	60,442,930

(5) Foreign currency exposure-

Monetary liabilities denominated in dollars translated into the reporting currency, as of March 31, 2023 and 2022, are as follows:

	U.S. dollars	
	2023	2022
Current liabilities	\$ 9,058	2,500
	Mexican pesos	
	2023	2022
Current liabilities	\$ 166,743	51,244

(Continued)



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Transactions denominated in foreign currency were as follows:

	U.S. dollars	
	2023	2022
Expenses:		
Non TPL Procurement	\$ 204,684	-
Market research	68,252	-
Audit fees	48,867	44,353
Training	40,490	26,001
General charges	34,224	-
Events, conferences and business meetings	35,415	-
Transport Insurance	21,495	-
IT Charges	21,153	-
Guarantee commission	-	313

	Euro	
	2023	2022
Business Development	2,902	25,000

The exchange rates used in the various translation processes to the reporting currency at March 31, 2023 and 2022, were as follows:

Country of origin	Currency	Exchange rate	
		2023	2022
United States of America	Dollar	19.5127	19.8911

At April 26, 2023, date of issue of the financial statements, the exchange rate was \$18.0892.

At March 31, 2023, the Company did not have foreign exchange hedging instruments.

(6) Financial risk management-

A. Accounting classifications and fair values

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

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Financial assets not measured at fair value

March 31, 2023	Note 4, 7 & 8	Accounts and other receivables	Cash
<u>Carrying amount**:</u>			
Financial assets measured at amortized cost (FICPI)		41,044,815	81,421,827
<u>Fair value:</u>			
Level 1		-	81,421,827
Level 2		-	-
Level 3		-	-
Total		-	81,421,827

Financial liabilities not measured at fair value

March 31, 2023	Note 14	Lease liabilities	Accounts payable and other payables*
<u>Carrying amount**:</u>			
Other financial liabilities		\$ 13,339,913	17,408,589
<u>Fair value:</u>			
Level 1		-	-
Level 2		-	-
Level 3		-	-
Total		\$ -	-

Financial assets not measured at fair value

March 31, 2022	Note 4, 7 & 8	Accounts and other receivables	Cash
<u>Carrying amount**:</u>			
Financial assets measured at amortized cost (FICPI)		29,928,808	60,442,930
<u>Fair value:</u>			
Level 1		-	60,442,930
Level 2		-	-
Level 3		-	-
Total		-	60,442,930

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Financial liabilities not measured at fair value

March 31, 2022	Note 14	Lease liabilities	Accounts payable and other payables*
<u>Carrying amount**:</u>			
Other financial liabilities		\$ 6,762,385	22,903,698
<u>Fair value:</u>			
Level 1		-	-
Level 2		-	-
Level 3		-	-
Total		\$ -	-

* Other payables that are not financial liabilities are not included.

** The company has not disclosed the fair value of financial instrument because their carrying amount are reasonable approximation of fair value

B. Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Group Finance Division of the parent company is responsible for the establishment and supervision of the Company's risk management policies. The Group Finance Division of the parent company has delegated to Management the development and supervision of the Company's risk management policies, additionally, Management is required to inform, on a regular basis, about its performance to The Group Finance Division of the parent company.

The Company's risk management policies are established to identify and analyze 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.

The Company's Management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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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 receivable from customers.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

During the years ended March 31, 2023 and 2022, no impairment losses over financial assets were recognized, the increase (decrease) in the allowance for accounts is as shown below:

	2023	2022
Increase (decrease) in the in the allowance for impairment	(1,208,653)	2,645,853

Trade receivable and contract assets

The Company's exposure to credit risk is not significant since there is no substantial percentage attributable to sales with a single customer, but rather, the Company markets their products and services to a large number of customers.

A credit policy has been implemented for each customer establishing purchase limits, which represent the maximum open amount that does not require the approval of the Board.

Customers who do not satisfy the credit policies of the Company, can only carry out operations with the Company through prepayment.

If required, the Company records any necessary allowance for impairment losses, which represents its best estimation at the reporting date. The main factors considered in recording such allowance are a component of specific losses due to significant exposure at individual level of customers.

More than 95% of the Company's customers have been transacting with the Company for over 3 years, and none of these customers' balances have been written off or are credit-impaired at the reporting date.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Company and existence of previous financial difficulties.

In note 6 is disclosed the allowance for losses due to the exposure of credit risk regarding accounts receivables.

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At March 31, 2023 and 2022, the exposure to credit risk for account receivable and contract assets by type of counterparty was as follows:

	2023	2022
Distributors	\$ 2,164,638	3,373,291
Total	\$ 2,164,638	3,373,291

At March 31, 2023, the carrying amount of the Farmacos Nacionales (FANASA) most significant customer was \$ 24,467,543 in 2023 Mexican pesos (\$6,452,809 in 2022).

Expected credit loss assessment for individual customers at March 31, 2023 and March 31, 2022.

The Company uses an allowance matrix to measure the ECLs of account receivable from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics - geographic region, age of customer relationship and type of product purchased.

The following tables provide information about the exposure to credit risk and ECLs for account receivable and contract assets from individual customers as at March 31, 2023 and 2022:

Credit risks: Accounts receivable from clients disclosed in the preceding paragraphs include amounts that are past due at the end of the reporting period. The following sheet shows an overview of the age of accounts receivable balances:

March 31, 2023	Weighted average loss rate	Gross carrying amount	Loss allowance	Credit impaired
Current (Not overdue)		\$ 64,328,196	-	No
Overdue between 1-30 days		1,338,177	-	No
Overdue between 31-60 days		3,438,996	-	No
Overdue between 61-90 days		134,121	-	No
Overdue between 90-180 days		403,806	-	No
Overdue more than 180 days		2,164,638	(2,164,638)	Yes
Total		\$ 71,807,934	(2,164,638)	

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March 31, 2022	Weighted average loss rate	Gross carrying Amount	Loss allowance	Credit Impaired
Current (Not overdue)	0%	\$ 39,368,136	-	No
Overdue between 1-30 days	0%	3,284,180	-	No
Overdue between 31-60 days	0%	182,443	-	No
Overdue between 61-90 days	0%	210,713	-	No
Overdue between 90 180 days	0%	355,587	-	No
Overdue more tan 180 days	100%	3,373,291	(3,373,291)	Yes
Total		\$ 46,774,350	(3,373,291)	

Probability of default and severity of loss are based on actual credit loss experience of the past 4 years; which only represents 4% of the clients with whom the Company generates commercial relations.

The Company monitors changes in credit risk with a daily portfolio analysis which allows defining the clients that may represent a risk. Additionally, the vision and knowledge that the Company has about the portfolio has reflected during 2022-2023 an improvement in the recovery and recovery of the portfolio.

Cash

The Company held cash of \$ 81,421,827 and \$60,442,930 at March 31, 2023 and 2022, respectively. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated between AAA and F1+, according to Fitch Ratings.

Guarantees

As of March 31, 2023 and 2022, the Company has issued security deposits for car rentals and building rentals for certain providers in connection with the provision of such services.

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.

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The Company aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities during a short term period. The Company also monitors the level of expected cash inflows on account and other receivable together with expected cash outflows on account and other payables. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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 exclude the impact of netting agreements:

	Contractual cash flows						
	Carrying amount	Total	2 months or less	2-12 months	1-2 years	2-5 years	More than 5 years
March 31, 2023							
Non-derivative financial liabilities							
Account payables	\$ 778,700	778,700	778,700	-	-	-	-
Lease liability	13,339,913	15,729,760	1,141,470	3,892,652	4,128,471	6,566,787	-
March 31, 2022							
Non-derivative financial liabilities							
Account payables	\$ 601,681	601,681	601,681	-	-	-	-
Lease liability	6,762,385	6,762,385	-	-	4,946,198	1,816,187	-

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity.

Market risk

Market risk is the risk that changes in market prices - e.g. foreign exchange rates -will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases, are denominated and the respective functional currency of the Company. The functional currency of the Company is Mexican pesos.

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Exposure to currency risk

The summary quantitative data about the Company's exposure to currency risk as reported to the management of the Company is as follows:

	March 31, 2023	March 31, 2022
	USD	USD
Account payables	\$ (9,058)	(2,500)
Account Payable IC	-	-
Others	-	-
Exposure net in the statements of financial position	\$ (9,058)	(2,500)

The following significant exchange rates have been applied:

	Average exchange rate		Spot exchange rate at year end	
	2023	2022	2023	2022
USD	19.6706	20.5796	19.0932	19.9112

Sensitivity analysis

A reasonably possible strengthening (weakening) of the US dollar against Mexican peso at March 31, would have affected the measurement of financial instruments denominated in a foreign currency and affected equity and income by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchases.

	Expenses	
	Strengthening	Weakening
March 31, 2023		
MXN (10% movement) Vs. USD	16,389	(16,389)
March 31, 2022		
MXN (10% movement) Vs. USD	4,978	(4,978)

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The movement in the provision for impairment with respect to the value of debt securities at amortized cost during the year is shown below:

Variations in the bad debt reserve, under FRS C-16	2023	2022
Balance as of March 31	\$ 71,807,934	46,774,350
Charges to costs and expenses	(2,164,638)	(3,373,291)
Carrying amount, net	\$ 69,643,296	43,401,059

(7) Accounts receivable-

Accounts receivable consist of the following:

	2023	2022
Trade	\$ 71,807,934	46,774,350
Less allowance for discounts and returns	28,598,481	13,472,251
Less allowance for doubtful accounts	2,164,638	3,373,291
	\$ 41,044,815	29,928,808

(8) Related-party transactions and balances-

Transactions carried out with related parties during the years ended March 31, 2023 and 2022 were as shown below:

	2023	2022
Purchases from: Torrent Pharmaceuticals Limited	\$ 63,937,217	52,044,252
Revenue from services: Torrent Pharmaceuticals Limited	\$ -	1,502,914
Commission expenses: Torrent Pharmaceuticals Limited	\$ -	6,192

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As of March 31, 2023 and 2022, payable balance by \$ 2,501,626 and \$11,187,449, corresponds mainly to the purchase of inventories.

(9) Other receivables-

Other receivables consist of the following:

	2023	2022
Recoverable value-added tax	\$ 8,845,687	11,929,009
Income Tax pending to recover	10,361,002	1,581,729
	\$ 19,206,689	13,510,738

(10) Inventories-

Inventories are comprised as follows:

	2023	2022
Finished goods	\$ 39,943,364	32,377,354
Less allowance for obsolete and slow-moving items	15,229,728	17,515,832
	\$ 24,713,636	14,861,522

(11) Prepayments-

Prepayments are comprised as follows:

	2023	2022
Insurance	\$ 845,539	380,484
Services	2,430,896	3,512,756
	\$ 3,276,435	3,893,240

(Continued)



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(12) Furniture, equipment and leasehold improvements-

Furniture, equipment and leasehold improvements are comprised as below:

	March 31, 2023	March 31, 2022	April 1, 2021
Investment:			
Office furniture and fixtures	\$ 1,095,147	1,058,364	1,058,364
Computer equipment	3,231,478	2,627,675	1,598,560
Leasehold improvements	5,657,186	5,657,186	5,657,186
Software	1,304,890	1,304,890	1,304,890
	11,288,701	10,648,115	9,619,000
Accumulated depreciation:			
Office furniture and fixtures	642,656	534,674	428,838
Computer equipment	2,041,453	1,505,166	1,238,886
Leasehold improvements	3,681,628	3,115,910	2,550,191
Software	1,304,891	1,304,890	1,304,890
	7,670,628	6,460,640	5,522,805
	\$ 3,618,073	4,187,475	4,096,194

(13) Accruals-

Accruals include the following:

	Salaries and other personnel benefits	Fees	Other (1)	Total
Balances at March 31, 2022	\$ 7,469,032	895,246	2,750,290	11,114,568
Increases recorded in earnings	9,023,344	952,988	3,901,931	13,878,263
Payments	(7,366,174)	(873,868)	(2,480,221)	(10,720,263)
Cancellation	(102,858)	(21,378)	(20,069)	(144,305)
Balances at March 31, 2023	\$ 9,023,344	952,988	4,151,931	14,128,263

(1) It mainly corresponds to accruals for market research and Amex expenses.

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(14) Assets under leases (Right-of-use assets) and leases liabilities -

The Company leases Vehicles and factory facilities. The leases typically run for a period of 4 years, with an option to renew the lease after that date. Lease payments are renegotiated every four years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Company is restricted from entering into any sub-lease arrangements.

The vehicles and factory leases were entered into many years ago as combined leases of land and buildings. Previously, these leases were classified as operating leases.

Information about leases for which the Company is a lessee is presented below:

Assets under leases (Right-of-use assets)

Right-of-use assets related to lease properties that do not meet the definition of investment property comprise the following:

	Buildings	Vehicles	Total
Balance at April 1, 2022	\$ 3,119,877	3,239,861	6,359,738
Depreciation charge for the year	(2,879,886)	(2,761,281)	(5,641,167)
Additions to right-of-use assets	-	12,287,226	12,287,226
Cancellation of lease	-	(13,449)	(13,449)
Balance at March 31, 2023	\$ 239,991	12,752,357	12,992,348

	Buildings	Vehicles	Total
Balance at April 1, 2021	\$ 246,846	4,628,851	4,875,697
Depreciation charge for the year	(2,886,741)	(2,477,251)	(5,363,992)
Additions to right-of-use assets	5,759,772	1,339,559	7,099,331
Cancellation of lease	-	(251,298)	(251,298)
Balance at March 31, 2022	\$ 3,119,877	3,239,861	6,359,738

Amount recognized in profit or loss

	2023	2022
Interest on lease liabilities	\$ 600,789	525,832

Total cash outflows for leases during 2023 were \$ 6,297,038.

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Lease liabilities

The terms and conditions of leases as of March 31, 2023 and 2022 are as follows:

March 31, 2023	Currency	Nominal interest rate	Year of maturity	Nominal value	Present value
Vehicles	Pesos	9-10.5%	2023-2026	15,566,318	12,831,019
Building	Pesos	4%	2023	511,461	508,894

March 31, 2022	Currency	Nominal interest rate	Year of maturity	Nominal value	Present value
Vehicles	Pesos	5 – 9%	2022-2025	3,767,184	3,525,302
Building	Pesos	4%	2023	3,313,482	3,237,083

(15) Employee benefits-

(a) Short term direct benefits-

As of March 31, 2023 and 2022, there are direct benefits for cumulative compensated absences to vacations and other compensation amounting to \$ 9,023,344 and \$7,169,032, respectively.

(b) Post-Employment benefits-

The Company has a defined benefit plan for pension, seniority premium and legal compensations covering substantially all of its employees. Benefits are based on years of service and the employee's compensation.

Cash flow-

The benefits paid were as follows:

	Benefits paid	
	2023	2022
Seniority premium	\$ 221,973	201,476
Legal compensation	2,709,036	4,194,843
	\$ 2,931,009	4,396,319

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The components of defined benefit cost for the years ended March 31, 2023 and 2022 are as shown below:

	Seniority premium		Legal Compensation		Total	
	2023	2022	2023	2022	2023	2022
Current Service Cost (CLSA)	\$ 195,524	143,268	2,684,579	3,725,122	2,880,103	3,868,390
Prior Service Labor Cost provided in the year			35,500		35,500	-
Net interest on DBNL	82,494	50,599	608,938	564,492	691,432	615,091
Remeasurements of DBNL recognized in income of the period	65,939	34,982	205,298	310,323	271,237	345,305
Net cost for the period	\$ 343,957	228,849	3,534,315	4,599,937	3,878,272	4,828,786
OCI beginning balance						
OCI beginning balance remeasurements	\$ 496,519	276,361	1,518,971	2,577,720	2,015,490	2,854,081
OCI (Gain)/Loss amortization	(65,939)	(34,982)	(205,298)	(310,323)	(271,237)	(345,305)
(Gain)/Loss during the period	129,724	255,140	1,135,532	(748,426)	1,265,256	(493,286)
Ending balance of remeasurements in OCI	\$ 560,304	496,519	2,449,205	1,518,971	3,009,509	2,015,490
Beginning balance of DBNL	\$ 496,519	276,361	1,518,971	2,577,720	2,015,490	2,854,081
Remeasurements generated	129,724	255,140	1,135,532	(748,426)	1,265,256	(493,286)
Remeasurements of the DBNL recognized in results of the period	(65,939)	(34,982)	(205,298)	(310,323)	(271,237)	(345,305)
Ending balance of DBNL	\$ 560,304	496,519	2,449,205	1,518,971	3,009,509	2,015,490
Net increase (decrease) in remeasurements of the DBNL	\$ 63,785	220,158	930,234	(1,058,749)	994,019	(833,591)
Defined benefit cost	\$ 407,742	449,007	4,464,549	3,541,188	4,872,291	3,990,195
Beginning balance of DBNL	\$ 924,597	677,066	7,008,124	7,661,779	7,932,721	8,338,845
Defined Benefit Cost	407,742	449,007	4,464,549	3,541,188	4,872,291	3,990,195
Payments charged to DBNL	(221,973)	(201,476)	(2,709,036)	(4,194,843)	(2,931,009)	(4,396,319)
Ending balance of DBNL	\$ 1,110,366	924,597	8,763,637	7,008,124	9,874,003	7,932,721

(c) **Nominal rates used in actuarial calculations are as follows-**

	2023	2022
Discount rate (net of inflation)	9.75%	9.50%
Rate of compensation increase	3.50%	3.50%
Average remaining employee labor life	10 years	10 years

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(d) Sensitivity analysis for each significant actuarial assumption

The significant actuarial assumptions for the determination of the defined benefit obligations are discount rate and expected salary increase. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	2023	2022
Impact of increase in discount rate by 1 %	(454,753)	(366,971)
Impact of decrease in discount rate by 1 %	504,442	407,560
Impact of increase in salary escalation rate by 1 %	440,680	353,911
Impact of decrease in salary escalation rate by 1 %	(405,143)	(324,939)
Impact of increase in employee turnover rate by 1 %	62,981	51,727
Impact of decrease in employee turnover rate by 1 %	(65,130)	(53,505)

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumption may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the Balance Sheet.

(16) Tax on earnings (Income Tax (IT) and employee statutory profit sharing (ESPS)-

The income tax expense (benefit) is as follows:

	2023	2022
In income:		
Current IT	\$ 22,961,324	15,446,031
Deferred IT	(8,025,182)	(3,411,164)
	\$ 14,936,142	12,034,867

IT Law effective as of January 1, 2014 imposes an IT rate of 30% for 2014 and thereafter.

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a) Tax on earnings

Income tax expense attributable to income, differed from the amounts computed by applying the Mexican statutory rates of 30% IT to income, as a result of the items shown below:

	2023	2022
Computed "expected" tax expense	\$ 19,972,024	11,362,056
(Reduction) increase resulting from:		
Effects of inflation, net	(3,990,615)	(2,223,863)
Non-deductible expenses	1,002,087	940,298
Change in the valuation allowance for deferred tax assets	675,687	(69,102)
Other	(850,422)	1,309,202
Excess (insufficiency) in current income tax	(1,872,619)	681,781
Excess (Insufficiency) in deferred tax asset	-	34,495
Income Tax (benefit) expense	\$ 14,936,142	12,034,867

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at March 31, 2023 and 2022, are presented below:

	2023	2022
Deferred tax assets:		
Allowance for doubtful receivables	\$ 649,391	1,011,987
Allowance for obsolete and slow moving	4,568,918	5,254,750
Allowance for discounts and returns	8,579,544	4,041,675
Accruals	4,238,479	3,006,941
Furniture, equipment and leasehold Improvements	897,558	490,522
Employee benefits	1,569,966	1,261,303
Leasing	104,270	120,795
ESPS	2,373,506	1,501,582
Total gross deferred tax assets	22,981,632	16,689,555
Less valuation allowance	2,513,811	1,838,124
Net deferred tax assets to the next page	\$ 20,467,821	14,851,431



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	2023	2022
Net deferred tax assets from previous page	\$ 20,467,821	14,851,431
Deferred tax liabilities:		
Prepayments (insurance)	253,661	114,145
Total gross deferred tax liabilities	253,661	114,145
Deferred tax (asset)	(20,214,160)	(14,737,286)
Excess in deferred tax asset	(2,513,811)	34,497
Net deferred tax (asset) in statements of financial position	\$ (22,727,971)	(14,702,789)

The valuation allowance for deferred tax assets as of April 1, 2022 and 2021 amounted to \$ 1,838,124 and \$1,907,224, respectively. The net change in the total valuation allowance for the years ended March 31, 2023 and 2022 was a increase of \$675,687 and an decrease of \$69,100, respectively. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

b) Deferred ESPS

The ESPS effects of temporary differences that give rise to significant portions of the deferred ESPS assets and liabilities, at March 31, 2023 and 2022, are presented below:

	2023	2022
Deferred tax assets:		
Allowance for doubtful receivables	\$ 216,464	337,329
Allowance for obsolete and slow moving	1,522,973	1,751,583
Allowance for discounts and returns	2,859,848	1,347,225
Accruals	1,412,826	1,002,314
Furniture, equipment and leasehold improvements	299,186	163,507
Leasing	34,757	40,265
Employee benefits	523,322	420,434
Total gross deferred tax assets	6,869,376	5,062,657
Less valuation allowance	6,784,822	5,024,609
Net deferred tax assets	84,554	38,048
Deferred tax liabilities:		
Prepayments	84,544	38,048
Total gross deferred tax liabilities	84,544	38,048
Net deferred tax asset	\$ -	-

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(17) Stockholders' equity-

(a) Structure of capital stock-

At March 31, 2023, the stockholders' equity is represented as shown in below:

	Number of social shares	Amount
Fixed portion	50	\$ 50,000
Unlimited variable portion	74,691	74,691,000
	74,741	\$ 74,741,000

Shares are comprised of common or ordinary shares, with a par value of \$1,000.

(b) Restrictions on stockholders' equity-

In accordance with the General Corporations Law, five percent of net income for the year must be appropriated to the statutory reserve, until it reaches one-fifth of capital stock. As of March 31, 2023, the statutory reserve has not been constituted.

Stockholder contributions restated as provided for by the tax law may be refunded to stockholders tax-free, to the extent that such contributions equal or exceed stockholders' equity.

Retained earnings on which no income taxes have been paid, are subject to income taxes in the event of distribution, at the rate of 30%, payable by the Company; consequently, the stockholders may only receive 70% of such amounts.

No dividends have been paid during the year.

(18) Net revenue, cost of goods sold and general expenses-

The main items comprising net revenue, cost of goods sold and general expenses at March 31, 2023 and 2022 are shown below:

Net revenue are as follows:

	2023	2022
Sales of products	\$ 368,672,615	276,060,577
Revenue from services	-	1,502,914
Returns on sale	(71,831,587)	(41,187,812)
Discounts on sale	(9,726,457)	(9,209,528)
	\$ 287,114,571	227,166,151

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The main items comprising cost of goods sold and general expenses at March 31, 2023 and 2022 are below:

Cost of goods sold

	2023	2022
Inventory consumption	\$ 58,159,508	50,920,009
Import costs	4,936,265	4,572,487
	\$ 63,095,773	55,492,496

General expenses

	2023	2022
Salaries and other benefits	\$ 82,751,318	74,048,689
Publicity	26,953,321	12,029,700
Market research	11,218,189	11,957,998
Samples	8,197,197	3,878,217
Travel expenses	6,738,569	5,320,466
Depreciation on lease	5,641,167	5,363,992
Storage cost	3,210,704	3,109,139
Freight	2,695,344	2,410,346
Professional and legal fees	1,883,623	1,595,103
Depreciation	1,209,988	937,834
Consultation and Translation	995,965	3,413,961
Interest expense on lease	600,789	525,832
Other	11,100,020	11,599,787
	\$ 163,196,195	136,191,064

(19) Commitment and contingent liabilities-

- (a) The Company leases facilities for administrative offices and warehouses, as well as certain transportation equipment, under defined term lease agreements.
- (b) There is a contingency liability arising from the labor obligations mentioned in note 3(j).
- (c) The Company is involved in only one lawsuit and claims arising in the normal course of business. It is expected that the final outcome of these matters will not have significant adverse effects on the Company's financial position and income.
- (d) In accordance with Mexican tax law, the tax authorities are empowered to examine transactions carried out during the five years prior to the most recent income tax return filed.

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- (e) In accordance with the IT Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.

(20) Recently issued financial reporting standards-

The Mexican Board of Financial Reporting Standards (Consejo Mexicano de Normas de Información Financiera, A. C. or CINIF) has issued the FRS listed are show below:.

2023 FRS Revisions

In December 2022, CINIF issued a document called "2023 FRS Revisions" containing precise modifications to some of the existing FRS. The improvements made to the FRS result in accounting changes in the annual financial statements, which are shown below:

FRS B-15 "Conversion of foreign currencies"- Enters into force for the fiscal years that start from the 1st. January 2023, allowing its early application. Any change that it generates must be recognized in accordance with NIF B-1 Accounting changes and correction of errors. It makes modifications to the practical solution of the NIF that allows the preparation of financial statements without the effects of conversion to functional currency. This improvement specifies which entities and in which cases this option can be exercised, establishing that an entity that does not have subsidiaries or controllers or that is a subsidiary, associate or joint venture, can prepare its financial statements without converting to functional currency, provided that These are financial statements exclusively for tax and legal purposes and do not have users who require the preparation of financial statements considering the effects of conversion to functional currency.

Management estimates that the adoption of these FRS improvements will not yield significant effects.

