



Salles Sainz

**Grant Thornton**

Financial statements and Independent auditor's report

Zydus Pharmaceuticals México Service Company,  
S.A. de C.V.

December 31, 2021 and 2020



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## Independent auditor's report

To the Stockholders of Zydus Pharmaceuticals México Service Company, S. A. de C. V.:

### Opinion

We have audited the accompanying financial statements of **Zydus Pharmaceuticals México Service Company, S. A. de C. V.** (the "Company") which comprise the statements of financial position as of December 31, 2021 and 2020, and the statements of comprehensive income, changes in stockholders' equity and of cash flows for the years then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Zydus Pharmaceuticals México Service Company, S.A. de C.V., as of December 31, 2021 and 2020 and its financial performance and its cash flows for the years then ended, in accordance with Mexican Financial Reporting Standards (NIF for its acronym in Spanish).

### 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 "Auditor's Responsibilities for the audit of the financial statements" section of our report, and the following "Exhibit". We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Mexico in accordance with the Instituto Mexicano de Contadores Públicos A.C.'s Code of Professional Ethics (IMCP Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA and IMCP Codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which discusses the effect of the transference of its employees to its related party Zydus Pharmaceuticals México, S.A. de C.V., through an employer substitution without retaining any type of obligation related to employee benefits, except for the amount of profit sharing generated in relation to fiscal year 2021 in an amount of \$176,248. As of the date of issuance of the financial statements, Management is in process to evaluate new business opportunities for the Company.

We draw the attention to Note 12e which mentions that as of December 31, 2021 and 2020, the Company has accumulated operating losses with a consequent deficit in Partners' equity by \$(900,559) and \$(698,462), respectively, and as of December 31, 2021, the Company's current liabilities (represented by related parties, mainly) exceeded its total current assets by \$943,930. These conditions indicate that may cast significant doubt on the Company's ability to continue as a going concern. However, Zydus Lifesciences LTD (formerly known as Cadila Healthcare Limited) the ultimate parent company, has indicated its intention to maintain the necessary financial support, to allow the Company to continue as a going concern.

Our opinion is not modified in respect of this matters.

#### **Responsibilities of management for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with NIFs, 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 and using the going concern basis of accounting, or otherwise, making the appropriate disclosures.

#### **Auditor's responsibility for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements of Zydus Pharmaceuticals México Service Company, S. A. de C. V. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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.

SALLES, SAINZ – GRANT THORNTON, S.C.

C.P.A. Guadalupe Saldivar Olivares  
Partner

Mexico City, Mexico  
April 22, 2022.



## Exhibit of the Independent auditor's report

### **Additional description of our responsibilities on the audit of the 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 auditor's 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 auditor's 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 management, 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.

Statements of financial position  
As of December 31, 2021 and 2020  
(Amounts Stated in Pesos)

	<u>Note</u>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 401,958	\$ 1,758,729
Other accounts receivable	5	1,035,421	1,272,815
Related parties	11	-	6,001,806
Prepaid expenses		-	955,563
<b>Total current assets</b>		<b><u>1,437,379</u></b>	<b><u>9,988,913</u></b>
<b>Non-current assets</b>			
Deferred income tax	7	43,371	700,524
Deferred employee profit sharing	10	-	232,537
<b>Total assets</b>		<b><u>\$ 1,480,750</u></b>	<b><u>\$ 10,921,974</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Short-term</b>			
Accounts payable to employees	8	\$ 4,955	\$ 4,120,948
Suppliers		56,780	70,688
Taxes payable		4,999	3,701,042
Employee profit sharing payable	10	203,407	260,306
Related parties	11	2,111,168	-
<b>Total short-term liabilities</b>		<b><u>2,381,309</u></b>	<b><u>8,152,984</u></b>
<b>Liabilities long-term</b>			
Employee benefits	9	-	3,467,452
<b>Total liabilities</b>		<b><u>2,381,309</u></b>	<b><u>11,620,436</u></b>
<b>EQUITY</b>			
Capital stock	12	5,600,991	5,600,991
Accumulated losses		(6,501,550)	(6,751,389)
Other comprehensive income		-	451,936
<b>Total equity</b>		<b><u>(900,559)</u></b>	<b><u>(698,462)</u></b>
<b>Total liabilities and equity</b>		<b><u>\$ 1,480,750</u></b>	<b><u>\$ 10,921,974</u></b>

The accompanying notes are an integral part of these statements of financial position

## Statements of comprehensive income

For the years ended December 31, 2021 and 2020

(Amounts Stated in Pesos)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<b>Income from services</b>	11	\$ 22,980,350	\$ 49,684,689
<b>Cost of services:</b>			
Payroll and benefits employees services		16,311,760	38,884,900
Social security contributions		3,722,171	6,196,544
Insurance		1,457,576	2,375,106
Professional services		354,017	415,870
Services and comissions		42,835	71,771
Statutory employee profit sharing, current and deferred	10	176,258	239,645
Other		8,741	12,220
		<u>22,073,358</u>	<u>48,196,056</u>
<b>Profit before taxes on income</b>		<u>906,992</u>	<u>1,488,633</u>
Income tax	7	-	1,366,461
Deferred income tax	7	657,153	401,168
		<u>657,153</u>	<u>1,767,629</u>
<b>Net profit (loss) for the year</b>		<u>\$ 249,839</u>	<u>\$ (278,996)</u>
<b>Other comprehensive results</b>			
Remeasurements recycling recognized		(451,936)	(282,476)
<b>Comprehensive loss for the year</b>		<u>\$ (202,097)</u>	<u>\$ (561,472)</u>

The accompanying notes are an integral part of these financial statements.

## Statements of changes in equity

For the years ended December 31, 2021 and 2020

(Amounts Stated in Pesos)

	<u>2021</u>	<u>2020</u>
<b>Capital stock at beginning and at end of year</b>	<b>\$ 5,600,991</b>	<b>\$ 5,600,991</b>
<b>Accumulated losses at beginning of year</b>	<b>(6,751,389)</b>	<b>(6,472,393)</b>
Net profit (loss) for the year	<u>249,839</u>	<u>(278,996)</u>
<b>Accumulated losses at end of year</b>	<b><u>(6,501,550)</u></b>	<b><u>(6,751,389)</u></b>
<b>Other comprehensive income at beginning of year</b>	<b>451,936</b>	<b>734,412</b>
Remeseaurements recycling recognized	<u>(451,936)</u>	<u>(282,476)</u>
<b>Other comprehensive income at end of year</b>	<b><u>-</u></b>	<b><u>451,936</u></b>
<b>Total equity</b>	<b><u>\$ (900,559)</u></b>	<b><u>\$ (698,462)</u></b>

The accompanying notes are an integral part of these financial statements.



**Statements of cash flows**

**For the years ended December 31, 2021 and 2020**

(Amounts Stated in Pesos)

	<u>2021</u>	<u>2020</u>
<b>Operating:</b>		
Profit before income tax	\$ <b>906,992</b>	\$ 1,488,633
Changes in:		
Other accounts receivable	<b>237,394</b>	260,897
Related parties	<b>8,112,974</b>	(2,650,710)
Prepaid expenses	<b>955,563</b>	13,563
Accounts payable to employees	<b>(4,115,993)</b>	8,421
Suppliers	<b>(13,908)</b>	(125,513)
Employee profit sharing payable	<b>(56,899)</b>	142,663
Employee benefits	<b>(3,919,388)</b>	554,069
Taxes payable	<b>(3,696,043)</b>	(1,414,215)
Deferred employee profit sharing	<b>232,537</b>	142,687
Net cash flows from operating activities	<u><b>(1,356,771)</b></u>	<u>(1,579,505)</u>
Decrease in cash during the year	<b>(1,356,771)</b>	(1,579,505)
Cash at beginning of year	<u><b>1,758,729</b></u>	<u>3,338,234</u>
Cash at end of year	<u><b>\$ 401,958</b></u>	<u>\$ 1,758,729</u>

The accompanying notes are an integral part of these financial statements.

# **Zydus Pharmaceuticals México Service Company, S. A. de C. V.**

## **Notes to the financial statements As of December 31, 2021 and 2020**

(Stated in Mexican Pesos)

### **1 NATURE OF OPEARTIONS**

Zydus Pharmaceuticals México Service Company, S. A. de C. V. (the Company) was incorporated on August 31, 2010. The Company's main activity is to render administrative and personnel services to its affiliated Zydus Pharmaceuticals México, S. A. de C. V.

The Company is wholly owned subsidiary of Zydus International Private Limited (ZIPL).

Company's office is located at Carretera Picacho Ajusco 154 601 B, Jardines de la Montaña, Mexico City, Mexico.

On March 11, 2020, the World Health Organization ('WHO') declared COVID-19 a pandemic, and worldwide governments, including Mexico, have implemented a range of policies and actions to combat it. The Company has fulfilled all the Government rules and regulations of Mexico to join hands to combat the pandemic. During 2021 and 2020 the Company had no effect derived by the Pandemic. Therefore, the Company continued supplying personnel services.

On April 23, 2021, a decree was published that modifies various federal laws concerning the subcontracting of personnel services, thereby prohibiting subcontracting and only allowing those that qualify as specialized services or execution of a specialized work. These modifications contemplate a maximum limit for the payment of Employee Profit Sharing (PTU – for its acronym in Spanish), corresponding to the highest amount between the equivalent of three months of the employee's salary or the average paid for PTU in the last three years. In order to comply with the provisions of the decree and since its predominant activity was not permitted by the new provisions, and that it rendered its services exclusively to its related party, on July 15, 2021 Company's Management decided to transfer the employees to its related party Zydus Pharmaceuticals México, S.A. de C.V., through an employer substitution process, without retaining any type of obligation related to employee benefits, except for the amount of PTU generated in connection with fiscal year 2021. As of the date of issuance of the financial statements, Management is in process to evaluate new business opportunities.

### **2 APPROVAL AND BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The accompanying financial statements have been prepared in accordance with the Financial Reporting Standards (NIFs, for its Acronym in Spanish) issued by the Mexican Board of Financial Reporting Standards (CINIF, for its Acronym in Spanish), they have been prepared under the assumption that the Company operates on a going concern basis.

The accompanying financial statements were authorized to be issued on April 22, 2022, by Prasanta Paul, Finance Head, consequently, they do not reflect events beyond that date.

The General Corporate Law and the by-laws of the Company grant stockholders the possibility to amend the financial statements after their release. The accompanying financial statements will be submitted for approval at the General Stockholders' Annual Meeting.

### **3 CHANGES IN ACCOUNTING POLICIES**

#### **a) New standards adopted on January 1, 2021**

As of January 1, 2021, some new standards, interpretations and modifications became effective, the effect of which was not significant for the financial position and results of the Company.

- Early adoption of the improvement to NIF D-3 'Employee benefits' – effects of the labor reform on the determination of deferred PTU

#### **b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company**

##### **NIF's Improvements 2022**

The CINIF issued the 'NIF's Improvements 2022', which will become effective for periods beginning as of January 1, 2022, its early application is permitted. Those amendments are not expected to have a significant effect on the Company's financial statements.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement.

### **4 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used to prepare these financial statements are summarized as follows:

#### **a. Functional and presentation currency**

The financial statements are presented in the currency "peso", which is also the functional currency of the Company.

The functional currency is the one in which the Company primarily generates and uses its cash flows corresponding to its sales, costs and expenses, as well as the financing obtained and other transactions.

#### **Foreign currency transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognized in profit or loss.

#### **b. Statements of comprehensive income**

The statements of comprehensive income, presented in a single statement, show costs and expenses based on their nature, according to administrative services rendered.

### **c. Statements of cash flows**

The Company decided to present the statement of cash flows using the indirect method. By utilizing this method, profit or loss before income tax provision is firstly presented, and then reconciled by the changes in working capital, investing activities, and finally financing activities.

### **d. Impact of inflation**

The financial statements as of December 31, 2021 and 2020, are prepared under historical cost basis. In accordance with NIF B-10, the Company does not recognize the effects of inflation as it operates in a non-inflationary economic environment since its beginning of operations and in virtue that accumulated inflation for the last three years prior to the date of the financial statements is less than 26%.

Annual inflation in 2020, 2019 and 2018 was 3.15%, 2.83% and 4.83%, respectively; therefore, accumulated inflation for the prior three years period was 11.19%.

### **e. Cash**

Cash comprise cash on hand and bank deposits in checking accounts.

### **f. Prepayments**

Prepayments represent benefits for which, the receiving goods or services, including their inherent risks, have not yet been delivered and/or transferred to the Company.

### **g. Financial instruments**

#### **Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial assets and liabilities represent contractual rights and obligations, respectively, in relation to monetary economic resources.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

#### **Classification and initial measurement of financial assets**

The classification is determined both by the business model of the Company on the management of the financial asset, as well as the contractual characteristics of the cash flow of the financial asset. Financial assets are classified in the following categories:

- Trade receivables

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with NIF D-1 “Revenue from Contracts with Customers”, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

All income and expenses relating to financial assets that are recognized in the comprehensive income are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within operating expenses.

### **Subsequent measurement of financial assets**

#### Trade receivables and financial instruments to collect its principal and interest (IFCPI for its Acronym in Spanish)

Financial assets (IFCPI) are measured at amortized cost if the assets meet the following conditions and were not designated as fair value through profit or loss (FVTPL).

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Measurement at amortized cost is carried out by using the effective interest method, discounting is omitted where the effect of discounting is immaterial. The Company's cash, trade and other accounts receivable and accounts payable, that do not contain a significant financing component, fall into this category of financial instruments and are measured at amortized cost.

As of December 31, 2021 and 2020, the Company has not financial assets measured at fair value.

### **Impairment of financial assets**

According with the 'expected credit loss (ECL) model', impairment evaluation for financial assets use more forward-looking information to recognize expected credit losses. This replaces the previous 'incurred loss model'. Instruments within the scope of the new requirements included trade receivables, including contract assets measured under NIF D-1, other debt-type financial assets measured at amortized cost and/or FVTOCI.

Recognition of credit losses is no longer dependent on the Company first identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1');
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'); and
- financial instruments that have objective evidence of impairment at the reporting date ('Stage 3').

The '12-month expected credit losses' are recognized for the Stage 1 while 'lifetime expected credit losses' are recognized for the Stages 2 and 3.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

#### Trade and other accounts receivable and contract assets

As of December 31, 2021 and 2020, all revenues are obtained from related parties, Management does not deem necessary to create a loss allowance.

#### **Classification and measurement of financial liabilities**

The Company's financial liabilities include trade and accounts payables.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

If applicable, all interest-related charges and changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

#### **h. Income tax and employee profit sharing, prepaid or deferred**

Provisions for income tax (ISR for its acronym in Spanish) and profit sharing (PTU for its acronym in Spanish) are recorded in income for the year they become payable. Also, a deferred tax related to these two items is included, arising from temporary differences resulting from comparing book and tax values of assets and liabilities, including the benefit of tax loss carryforwards. A deferred tax asset is recorded only when there is a high likelihood that it can be recovered. Deferred taxes are determined using enacted tax rates that are estimated will be effective on the dates temporary items shall be reversed or realized. In relation to the foregoing, as of fiscal year 2021, for the purposes of deferred PTU, the Company evaluates whether the enacted rate will be lower than the incurred rate, by virtue of the limits established in current legislation for the payment of PTU, and if so, it determines the rate that it expects to accrue either through financial projections or based on the PTU rate incurred in the current fiscal year. Current and deferred PTU is considered an ordinary expense associated to employee benefits. As of December 31, 2021, there is no deferred profit sharing.

The current and deferred PTU is considered an ordinary expense associated to employee benefits.

#### **i. Employee benefits**

Termination or post-employment benefits established in the Federal Labor Law in Mexico refer mainly to seniority premiums payable to employees who have completed fifteen or more years of service, and indemnifications for voluntary or involuntary separation.

The Company recognizes the liability for employee benefits under the projected unit credit method as follows:

Direct benefits such as salaries, overtime, and vacation among others, are recognized in exchange for services rendered in the period in which they are accrued at their face value and are classified in the short or long term whether these benefits occur or not within the following twelve months Post-employment benefits that include seniority premium, is determined based on actuarial calculations for personnel years of service, covering the defined benefit obligation in the long-term liabilities.

**j. Equity**

Share capital represents the nominal (par) value of shares that have been issued (see Note 12).

Accumulated losses include all current and prior period losses.

**k. Revenue recognition**

Up to July 15, 2021, revenue arose from providing administrative and operative services to its related party Zydus Pharmaceuticals México, S.A. de C.V.

To determine whether to recognize revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligation(s) are satisfied.

Revenue is recognized either at a point in time or over time, when (or as) the Company satisfies performance obligations on services when these have been rendered and accepted by the client.

The Company recognizes contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company satisfies a performance obligation before it receives the consideration, the Company recognizes either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Company's administrative and operative services do not contemplate customization processes are not subject to significant integration services with other products or services, so the performance obligation corresponds to the services rendered by the Company; the control is transferred at the moment in which the customer receives the services. Sales operations generally do not contemplate variable payments, financing or any other relevant agreement that affects the transaction price.

**l. Operating expenses**

Operating expenses are recognized in comprehensive income upon utilization of the service or as incurred.

**m. Significant management judgement in applying accounting policies and estimation uncertainty**

**Significant management judgements**

The following are the judgements made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Recognition of deferred income tax and deferred employee profit sharing

The extent to which deferred tax assets can be recognized is based on an assessment of the probability that future taxable income will be available against which the deferred tax assets of the Company can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits (see Notes 7 and 10).

**Estimation uncertainty**

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Reserve for employee benefits

Management obtains from an actuary an estimate of its post-employment benefits such as retirement benefits and termination benefits. The overall actuarial assumptions used must be unbiased and mutually compatible and represent the best estimate of the variables determining the ultimate post-employment benefit cost.

**n. Provisions, contingent assets and liabilities**

Provisions represent present obligations resulting from past events and are recognized when there is a probability of cash outflows, and amounts can be reliably estimated; but they can still be uncertain. A present obligation arises from legal or contractual commitments resulting from past events such as warranties, legal disputes, or onerous contracts. Provisions are not recognized for future operating losses.

**o. Comprehensive loss**

The amount of comprehensive loss is the result of the total performance of the Company during the years ended December 31, 2021 and 2020. Comprehensive loss is basically represented by net loss for the year and the Remeasurements recycling recognized related to labor liabilities as shown in the statements of comprehensive income.

**5 OTHER ACCOUNTS RECEIVABLE**

	<b>2021</b>	<b>2020</b>
Income tax recoverable	\$ <b>709,630</b>	\$ 20,353
Value added tax recoverable	<b>325,791</b>	41,285
Sundry debtors	-	1,211,177
	<u><b>\$ 1,035,421</b></u>	<u>\$ 1,272,815</u>



## 6 FINANCIAL INSTRUMENTS

### Categories of financial assets and financial liabilities

Note 4 g) provides a description of each category of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	<u>2021</u>	<u>2020</u>
<b>Financial assets</b>		
<u>Amortized cost</u>		
Cash	\$ 401,958	\$ 1,758,729
Accounts receivable from related parties	-	6,001,806
Total financial assets	<u>\$ 401,958</u>	<u>\$ 7,760,535</u>
	<u>2021</u>	<u>2020</u>
<b>Financial liabilities</b>		
<u>Amortized cost</u>		
Suppliers	\$ 56,780	\$ 70,688
Related parties	<u>2,111,168</u>	-
Total financial liabilities	<u>\$ 2,167,948</u>	<u>\$ 70,688</u>

A description of the Company's financial instrument risks, including risk management objectives and policies is given in the following Note 13.

## 7 INCOME TAX

For the years ended December 31, 2021 and 2020, the Company determined tax (loss) profit in the amount of \$(2,452,868) and \$4,554,870, respectively, which differs from the profit before taxes on income of each year mainly due to the following items:

	<u>2021</u>	<u>2020</u>
Profit before income taxes	\$ 906,992	\$ 1,488,633
Temporary items:		
Provisions	(4,968,982)	1,184,367
Other items	870,241	(289,491)
Permanent items:		
Annual adjustment for inflation	(198,987)	(84,046)
Non-deductible expenses	(527,029)	8
Non-deductible employee benefits	<u>1,464,897</u>	<u>2,255,399</u>
Net effect	<u>(3,359,860)</u>	3,066,237
Taxable (loss) profit	<u>\$ (2,452,868)</u>	<u>\$ 4,554,870</u>
Tax rate	30%	30%
Current income tax	<u>\$ -</u>	<u>\$ 1,366,461</u>

### Deferred income tax

As of December 31, 2021 and 2020, the asset resulting from the cumulative effect of deferred income tax, is analysed as follows:

	<u>2021</u>	<u>2020</u>
<b>Deferred tax assets:</b>		
Provisions and other	\$ 144,571	\$ 3,290,643
Tax loss carryforwards	<u>2,530,869</u>	-
<b>Total deferred tax assets</b>	<u>2,675,440</u>	3,290,643
<b>Deferred tax liabilities:</b>		
Prepaid expenses	-	(955,563)
<b>Total deferred tax liabilities</b>	-	(955,563)
	<u>2,675,440</u>	2,335,080
Income tax rate	<u>30%</u>	30%
	\$ 802,632	\$ 700,524
Less valuation allowance	<u>(759,261)</u>	-
Deferred income tax asset	<u>\$ 43,371</u>	\$ 700,524

As of December 31, 2021, this deferred income tax asset is mainly generated by provisions and tax loss carryforwards. As of December 31, 2020, this deferred income tax asset is mainly generated by provisions and reserve for employee benefits. Considering the new conditions of the Company (see Note 12 e), its projections and its actual taxable income, the Company management has decided to recognize a valuation allowance for this deferred income tax asset in the amount of \$(759,261).

### Tax loss carryforwards

Tax loss carryforwards can be offset against future taxable income during the following ten fiscal years. Those tax losses may be restated by using the NCPI, as of the first month of the second half of the fiscal year in which the tax loss was incurred and up to the last month of the first half of the fiscal year in which the tax loss is realized.

As of December 31, 2021, tax loss carryforwards restated at that date are summarized as follows:

<u>Year incurred</u>	<u>Restated amount</u>	<u>Year of expiration</u>
2021	\$ 2,530,869	2031
	<u>\$ 2,530,869</u>	

## 8 ACCOUNTS PAYABLE TO EMPLOYEES

	<u>2021</u>	<u>2020</u>
Bonus	\$ -	\$ 1,432,718
Personnel savings fund	4,955	1,971,307
Vacations	-	440,775
Salaries	-	276,148
	<u>\$ 4,955</u>	<u>\$ 4,120,948</u>

## 9 EMPLOYEE BENEFITS

Pursuant to the labor reform discussed in Note 10, on July 1, 2021, the Company transferred its employees to its related party through an employer substitution. That transfer is considered an early liquidation of obligations; therefore, the DBO was written off and allocated to profit and loss for the period as of that date. The amount of this write-off in profit and loss is included in the line item of Payroll and benefits employees services.

As of December 31, 2020, the actuarial study information shows the following information:

	<u>Indemnifications</u>	<u>Seniority Premium</u>	<u>Total</u>
Defined benefit obligations (DBO)	\$ 3,308,201	\$ 159,251	\$ 3,467,452
Liability recognized in the financial position	<u>\$ 3,308,201</u>	<u>\$ 159,251</u>	<u>\$ 3,467,452</u>
		<u>Seniority</u>	
	<u>Indemnifications</u>	<u>Premium</u>	<u>Total</u>
Current labor service cost	\$ 647,993	\$ 37,723	\$ 685,716
Remeasurements recycling recognized in OCI	<u>276,056</u>	<u>6,420</u>	<u>282,476</u>
Net cost of the period	<u>\$ 924,049</u>	<u>\$ 44,143</u>	<u>\$ 968,192</u>

Actuarial assumptions used in absolute terms:

Discount rate	6.30%
Rate of compensation increase	5.05%
Rate of minimum wage increase	3.50%

## 10 EMPLOYEE PROFIT SHARING (PTU)

As of the effectiveness of the decree discussed in Note 1, the manner of calculating the payment of PTU to workers was modified. The determination of PTU requires that a 10% rate be applied to the base calculated for that profit sharing, in accordance with the Income Tax Law. This amount determined must be allocated to each employee based on the provisions of The Federal Labor (LFT for its acronym in Spanish). However, the amount allocated to each employee may not exceed the greater between the equivalent of 3 months of the employee's current salary or the average of PTU received by the employee in the previous three years.

When PTU determined in conformity with the income Tax Law exceeds PTU allocated to each and every one of the employees, according to the limits discussed, PTU allocated to employees is considered PTU due for the period. The LFT considers that the difference between both amounts does not incur a payment obligation neither in the current period nor in future periods. PTU determined in conformity with the Income Tax Law, which is lower than or equal to the PTU allocated to each and every one of the employees, will be PTU due for the period.

In order to comply with the provisions of the decree and since its predominant activity was not permitted by the new provisions, and that it rendered its services exclusively to its related party, Company Management decided to transfer the employees to its related party, through an employer substitution process, without retaining any type of obligation related to employee benefits.

For the year ended December 31, 2021 and 2020, the Company generate a basis for employee profit sharing in amount of \$1,762,580 and (\$176,258 of current expense for the year then ended 2021) \$2,396,450 (\$239,645 of current expense for the year then ended 2020) this base differs from the income tax basis due to employee profit sharing paid, and the amount of other benefits paid to employees which are not fully deductible for income tax purposes.

As of December 31, 2021 and 2020 the asset resulting from the cumulative effect of deferred employee profit sharing is analysed as follows:

	<u>2021</u>	<u>2020</u>
Excess of tax value over book value of assets and liabilities, net	\$ 48,970	\$ 2,325,373
Employee profit sharing rate	10%	10%
Deferred employee profit sharing	4,897	232,537
Less: Valuation allowance	(4,897)	-
Deferred profit sharing tax asset	\$ -	\$ 232,537

## 11 RELATED PARTIES TRANSACTIONS AND BALANCES

For the years ended December 31, 2021 and 2020, the Company carried out transactions with Zydus Pharmaceuticals México, S.A. de C.V. (Affiliated); revenues in the amount of \$22,888,350 and \$49,684,689, respectively. As of December 31, 2021 and 2020, the Company had a (payable) receivable balance in the amount of (\$2,111,168) and \$6,001,806, respectively. As of December 31, 2021 and 2020, those accounts are related to administrative and personnel services and other expenses incurred during the years (See Note 1).

As of December 31, 2021 and 2020, the Company has a transfer pricing study, which supports that the prices utilized in the related-party transactions are comparable to those that would be utilized with or between independent parties.

## 12 EQUITY

### a. Capital stock

As of December 31, 2021 and 2020, the Company's nominal capital stock is represented by two common shares, one of them with value in the amount of \$50,000 which represents the minimum fixed capital and the other one in the amount of \$5,550,991, which represents the nominal variable capital, with a par value of one peso each.

### b. Legal reserve

Net income for the year is subject to the legal provision which requires appropriating 5% of that income to a legal reserve until that reserve equals 20% of the capital stock. The balance of the legal reserve may not be distributed to the stockholders, except as stock dividends. As of December 31, 2021 and 2020 the Company has not yet created any legal reserve.

**c. Distribution of earnings**

Net taxable income account (CUFIN, for its Acronym in Spanish)-

As of December 31, 2021, and 2020, the balance of the “net taxable income account” (CUFIN) has not been determined by the Company, which if it existed no income tax could be assessed on dividends or earnings distributed to stockholders up to the balance of such account.

Effective January 1 st, 2014, dividends paid to individuals or foreign residents are subject to an income tax at a 10% rate. This income tax is considered as a final payment and should be withheld by the Company distributing the dividends or earnings. This new rule applies only to the distribution of dividends or earnings generated beginning January 1st, 2014. The Company has no earnings available to be distributed as dividends.

In the case of non-CUFIN dividends, in addition to the above, they will continue to be subject to the payment of income tax payable by the entity, determined based on the general rate of law, which has the characteristic of being final and may be credited against Income tax for the year and the following two.

The balance of this account may be restated up to the date such dividends are distributed, by using the National Consumer Price Index (NCPI).

**d. Capital reductions**

As of December 31, 2021 and 2020, the balance of the Restated Contributed Capital Account (CUCA for its acronym in Spanish) amounts to \$7,997,950 and \$7,450,349. Any reimbursement to the stockholders that exceeds the foregoing amount should be treated as a distributed earning for tax purposes.

Likewise, in the event that stockholders’ equity should exceed the balance of the CUCA, the spread will be considered as a dividend or distributed earning subject to the payment of income tax. However, if such assessed earning distribution or dividend does not exceed the CUFIN balance, there will be no tax payable for the capital decrease or reimbursement.

**e. Going concern**

As of December 31, 2021 and 2020, the Company has accumulated operating losses with a consequent deficit in Partners' equity by \$(900,559) and \$(698,462), respectively, and as of December 31, 2021, the Company’s current liabilities (represented by related parties, mainly) exceeded its total current assets by \$943,930. These conditions indicate that may cast significant doubt on the Company’s ability to continue as a going concern. However, Cadila Healthcare LTD the ultimate parent company, has indicated its intention to maintain the necessary financial support, to allow the Company to continue as a going concern.

**13 FINANCIAL INSTRUMENTS RISKS**

**Risk management objectives and policies**

The Company is exposed to liquidity and credit risks in relation to financial instruments. The Company’s financial assets and liabilities by category are summarized in the preceding Note 6.

The Company’s risk management is coordinated in close cooperation with the board of directors and focuses on actively securing the Company’s short to medium-term cash flows by minimizing the exposure to volatile financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed are described below.

#### **Credit risk analysis**

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is slightly exposed to credit risk from financial assets including cash held at banks and accounts receivable from related party.

#### **Credit risk management**

The credit risk is managed on a group basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed via diversification of bank deposits and are only with major reputable financial institutions.

Accounts receivable from related party consist of one customer (Zydus Pharmaceuticals México, S.A. de C.V.) as noted on Note 11 above.

#### **Liquidity risk analysis**

Liquidity risk is the risk that the Company might be unable to meet its obligations. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

Net cash requirements are compared to available borrowing facilities in order to determine headroom or any shortfalls. This analysis shows that available borrowing facilities are expected to be sufficient over the lookout period.

The Company's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting period. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and related party's account receivable. The Company's existing cash resources and related party's account receivable significantly exceed the current cash outflow requirements.

### **14 CONTINGENCIES AND COMMITMENTS**

- a) In accordance with currently enacted tax legislation, the authorities have the power to review up to the five fiscal years prior to the last income tax return filed by the Company.
- b) In accordance with the Income Tax Law, companies that carry out domestic or foreign resident related party transactions are subject to limitations and tax obligations, with respect to the determination of prices agreed upon.

Such prices should be comparable to prices that would be used with or between independent parties in arm's length transactions.

In the event that the tax authorities should review the prices and reject the amounts determined, they could impose fines on the omitted contributions, in addition to collecting the pertinent taxes and related charges (restatement and surcharges), which could be as much as 100% of the restated amount of the contributions.

## **15 SUBSEQUENT EVENTS**

In February 2022 Cadila Healthcare LTD (the holding Company) changed its name to Zydus Lifesciences LTD.

No adjusting or significant non-adjusting events have occurred between the December 31, 2021 reporting date and the date of authorization.