

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF ZYDUS PHARMACEUTICALS MEXICO SERVICE CO. SA DE C.V.,

We have audited the accompanying financial statements of **ZYDUS PHARMACEUTICALS MEXICO SERVICE CO. SA DE C.V.**, ("the Company") which comprise the Balance Sheet as at 31st December, 2014 and the Statement of Profit and Loss for the year ended on that date and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position and financial performance of the Company in accordance with the accounting principles and the Accounting Standards generally accepted in the respective country i.e. Mexico. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our broad review. We conducted the review of these financial statements in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We have not conducted any detailed audit procedures as these financial statements have been audited by the auditors of the Company as appointed under the Laws of the Mexico in accordance with the auditing standards prevalent in Mexico.

In accordance with the above, we have carried out broad review of the financial statements as submitted by the management and as audited by the auditors of the Company. We believe that our review provides a reasonable basis for our opinion. We also believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in Mexico:

- (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st December, 2014; and
- (b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date.

Report on Other Legal and Regulatory Requirements

Further to our comments in the annexure referred to above, we report that:

- (i) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.
- (ii) The accounts and financial statements of the Company are duly audited and certified by the Company's Statutory Auditors viz Salles Sainz - Grant Thornton, S.C., Mexico, in accordance with the accounting and auditing standards generally accepted and prevalent in Mexico. The audited accounts along with auditors' report have been submitted to us for our review and have been appropriately verified and reviewed by us in preparing and submitting our report thereon. Our opinion is solely based on the report of the said independent auditors of the Company.
- (iii) The Balance Sheet and the Statement of Profit and Loss dealt with by this Report are in agreement with the books of account.
- (iv) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements including Balance Sheet and statement of Profit and Loss dealt with by this report comply with the accounting standards generally accepted in Mexico.

- (v) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
- a. The Company does not have any pending litigations which would impact its financial position.
 - b. The Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses.
 - c. Since the Company is incorporated outside India, this clause regarding reporting on amounts which were required to be transferred to the Investor Education and Protection Fund by the Company is not applicable.

For Mukesh M. Shah & Co.
Chartered Accountants
Firm Registration No. 106625W

Ahmedabad

Date: 14th May, 2015

Partner
[Chandresh S. Shah]
Membership No.: 042132

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Balance Sheet as at December 31, 2014

Particulars	Note No.	MXN - Thousands		INR - Thousands	
		As at December 31			
		2014	2013	2014	2013
EQUITY AND LIABILITIES:					
Shareholders' Funds:					
Share Capital	1	5,601	1,319	24,084	6,081
Reserves and Surplus	2	(8,005)	(8,745)	(34,421)	(40,316)
		(2,404)	(7,426)	(10,337)	(34,235)
Non-Current Liabilities:					
Long Term Borrowings	3	-	619	-	2,854
Long Term Provisions	4	1,854	1,055	7,972	4,864
		1,854	1,674	7,972	7,718
Current Liabilities:					
Trade Payables	5	372	636	1,600	2,932
Other Current Liabilities	6	6,042	6,293	25,981	29,011
Short Term Provisions	7	4,894	3,256	21,044	15,010
		11,308	10,185	48,625	46,953
Total		10,758	4,433	46,260	20,436
ASSETS:					
Non-Current Assets:					
Long Term Loans and Advances	8	368	564	1,583	2,600
Current Assets:					
Trade Receivables	9	9,339	3,101	40,158	14,296
Cash and Bank Balances	10	198	86	851	396
Other Current Assets	11	853	682	3,668	3,144
		10,390	3,869	44,677	17,836
Total		10,758	4,433	46,260	20,436
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 19				

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

For and on behalf of the Board

Sole Administrator

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Statement of Profit and Loss for the year ended December 31, 2014

Particulars	Note No.	MXN - Thousands		INR - Thousands	
		Year ended December 31			
		2014	2013	2014	2013
REVENUE:					
Revenue from Operations:					
Sale of Services		51,844	32,307	237,446	148,935
EXPENSES:					
Employee Benefits Expense	12	48,671	37,148	222,913	171,252
Finance Costs	13	25	57	115	263
Other Expenses	14	1,629	1,251	7,461	6,172
Total Expenses		50,325	38,456	230,489	177,687
Profit/ [Loss] before Tax		1,519	(6,149)	6,957	(28,752)
Less: Tax Expense:					
Current Tax		779	276	3,568	1,272
Deferred Tax		-	203	-	936
Profit/ [Loss] for the year		779	479	3,568	2,208
		740	(6,628)	3,389	(30,960)
		MXN		INR	
Basic & Diluted Earning per Equity Share [EPS]	15	0.14	(5.02)	2.57	(23.47)
Significant Accounting Policies	II				
Notes to the Financial Statements	1 to 19				

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

For and on behalf of the Board

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

Sole Administrator

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.

I-Company overview:

Zydus Pharmaceuticals Mexico S.A. De C.V., was incorporated on August 31, 2010. The Company's main activity is to render administrative and personnel services to its affiliated company Zydus Pharmaceuticals Mexico S.A. de C.V. The Company is a subsidiary of Zydus International Private Limited, a company incorporated in the Republic of Ireland.

II-Significant Accounting Policies:

1 Reporting Currency Translation:

The Local accounts are maintained in local and functional currency which is "Mexican Pesos [MXN]". These accounts have been translated in Indian Rupees considering the operation of the Company as "Non-integral operations" for holding company. The translation of Financial Statements to Indian Rupee [INR] from "MXN" is performed for assets and liabilities using the exchange rates prevailing on the Balance sheet dates and for revenues and expenses using the average exchange rates for the respective periods. The gain or loss resulting from such translation is included in "Foreign Currency Translation Reserve" under Reserves and Surplus.

2 Financial Reporting Standards:

- A** The accompanying financial statements have been prepared in accordance with the Financial Reporting Standards [NIF for its Acronym in Spanish] as issued by the Mexican Board of Financial Reporting Standards [CINIF for its Acronym in Spanish].
- B** The NIFS are structured as follows: a) Financial Reporting Standards and interpretations (INIF), b) Accounting Principles Bulletins; issued by the Mexican Institute of Public accounts that have not been modified, replaced or repealed by the NIF, and c) International Financial Reporting Standards (IFRS); issued by the International Accounting Standards Board (IASB) which are applicable suppletorily.
- C** The accompanying financial statements and their notes were authorized to be issued on March 25, 2015, by Gyanesh Kumar, Finance Head, consequently, do not reflect the events beyond that date.
- D** The General Corporate Law and the by-laws of the Company, grant to stockholders the possibility to amend the financial statements after issuing them. The accompanying financial statements will be submitted for approval at the General Stockholders' Annual Meeting.

3 Changes in Accounting Policies from adoption of new NIF:

The company has adopted the new NIF and "NIF improvements" to NIF which were effective from January 1, 2014.

- a NIF C-11 "Stockholders' equity"
- b Improvements to NIF 2014

There are no significant effects arising from the application of this new pronouncement in 2014, with respect to the valuation, presentation and disclosure.

4 Use of Estimates

In preparing the financial statements, various estimates and assumptions have been used for presentation of assets and liabilities, and disclosure of contingent assets and liabilities, such as, labor obligation, future cash flow, discount rates and other allowances, in order to present its financial information in conformity with Mexican financial reporting standards. Actual results can differ from these estimates and assumption.

5 Revenue Recognition

Company recognizes revenue on services when these have been provided and accepted by the client.

6 Foreign Currency Transactions:

Foreign currency transactions are accounted for at the prevailing exchange rate at the time they are carried out. Foreign currency denominated assets and liabilities are restated at the applicable end of the period exchange rates. Exchange gains or losses form part of the result of financing, affecting net income.

7 Employee benefits:

Payments to employees and workers, who no longer have a labour relationship, as provided for in the Federal Labor Law, are recorded as shown below:

A Indemnifications:

Indemnifications other than retirement, intended to personnel retiring due to corporate reorganisations, are charged to net income when they are paid; or otherwise, an accrual is determined when i) a present obligation of such events exists, ii) there is a high probability of cash disbursed, and iii) such obligation can be reasonably estimated. Indemnifications, other than retirement, intended to personnel retiring by circumstances, other than corporate reorganisations, are determined based on actuarial calculations.

B Seniority premium:

Seniority premium payable to employees that have completed fifteen or more years of service, as provided for in the Federal Labor Law, are recognised as a cost during the years of service; thus, an accrual intended to cover actual benefits has been determined based on actuarial calculations.

8 Income Tax, and employee profit sharing, Prepaid or Deferred:

- A** Provisions for income tax (ISR for its Spanish acronym) and employee profit sharing (PTU for its Spanish acronym) are recorded net 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 carry forward and tax credits. 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.
- B** Current and deferred PTU is considered an ordinary expense associated to employee benefit.

II-Significant Accounting Policies-Continued:

9 Impact of Inflation:

Effective 2008, recognition of the impact of inflation is suspended based on the fact the Mexican economy is now operating in a non - inflationary environment, as the accumulated inflation is less than 26% in the three years prior to the date of financial statements. Since the Company was incorporated on August 31, 2010, the accompanying financial statements do not recognise the effect of inflation on the financial information, as such, they are prepared under historical cost basis. There has been a non inflationary environment since January 1, 2008.

10 Provisions, Contingent assets and contingent liabilities:

Provisions represent present obligations resulted from past events, and are recognised when there is 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 resulted from past events such as warranties, legal disputes, or onerous contracts. Restructuring provisions are recognised only if detailed formal plan for the restructuring has been developed and implemented, or management has announced to those affected, at least the plan's main characteristics. Provision are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the obligation, based on the most reliable evidence available at the reporting date, including the risk & uncertainties associated with the present obligation. Where there are number of similar obligations, the probability of cash outflows will be measured considering the class of obligations.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Company's probable economic benefit inflows, that do not yet meet the asset recognition criteria, are considered contingent asset. without significant curtailment of operation.

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Notes to the Financial Statements

	MXN - Thousands		INR - Thousands	
	As at December 31			
	2014	2013	2014	2013
Note: 1-Share Capital:				
Authorised:				
5,600,991 [as at December 31, 2013: 1,319,390] Equity Shares of MXN 1/- each	5,601	1,319	24,084	6,081
	5,601	1,319	24,084	6,081
Issued, Subscribed and Paid-up:				
5,600,991 [as at December 31, 2013: 1,319,390] Equity Shares of MXN 1/- each fully paid-up	5,601	1,319	24,084	6,081
Total	5,601	1,319	24,084	6,081
A The reconciliation of the number of Shares outstanding is as under:				
<u>Particulars</u>				
Number of shares at the beginning of the year	1,319,390	1,319,390		
Add: Shares issued during the year	4,281,601	-		
Number of shares at the end of the year	5,600,991	1,319,390		
B The Company has only equity shares. All equity shares rank pari passu and carry equal rights with respect to voting and dividend. In the event of liquidation of the Company, the equity shareholders shall be entitled to proportionate share of their holding in the assets remained after distribution of all preferential amounts.				
C Equity shares of MXN 1/- each, fully paid held by Holding Company, Zydus International Private Limited, a company incorporated in the Republic of Ireland which is a subsidiary company of Cadila Healthcare Limited, the ultimate holding company, a company incorporated in India.				
Number of Shares	5,600,991	1,319,390		
% to total share holding	100%	100%		
Note: 2-Reserves and Surplus:				
Foreign Currency Translation Reserve: [*]				
Balance as per last Balance Sheet	-	-	-	-
Add: Exchange Rate differences on translation to INR	-	-	2,506	-
	-	-	2,506	-
Surplus in statement of Profit and Loss:				
Balance as per last Balance Sheet	(8,745)	(2,117)	(40,316)	(9,356)
Less/ [Add]: Profit/ [Loss] for the year	740	(6,628)	3,389	(30,960)
Balance as at the end of the year	(8,005)	(8,745)	(36,927)	(40,316)
Total	(8,005)	(8,745)	(34,421)	(40,316)
[*] Hitherto, the gain/ loss arising on the translation of the Financial Statements to INR was given effect into Statement of Profit and Loss. However, from the year under report, it is now included in "Foreign Currency Translation Reserve" [FCTR] under Reserves and Surplus. Consequent to this change, profit for the year [on INR conversion only] is lower by INR 2,506 Thousands, with a corresponding effect in "Reserves and Surplus".				
Note: 3-Long Term Borrowings:				
Loans and Advances from a Related Party [Refer Note: 17 for relationship]: Zydus Pharmaceuticals Mexico SA De C.V.	-	619	-	2,854
Total	-	619	-	2,854
Note: 4-Long Term Provisions:				
Provision for Employee Benefits	1,854	1,055	7,972	4,864
Total	1,854	1,055	7,972	4,864
Note: 5-Trade Payables:				
Trade Payables	372	636	1,600	2,932
Total	372	636	1,600	2,932
Note: 6-Other Current Liabilities:				
Provision for Expenses	6,042	6,293	25,981	29,011
Total	6,042	6,293	25,981	29,011

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Notes to the Financial Statements

	MXN - Thousands		INR - Thousands	
	As at December 31			
	2014	2013	2014	2013
Note: 7-Short Term Provision:				
Provision for Taxation	4,894	3,256	21,044	15,010
Total	4,894	3,256	21,044	15,010
Note: 8-Long Term Loans and Advances:				
[Unsecured, Considered Good unless otherwise stated]				
Other Loans and Advances:				
Balances with Revenue Authorities	323	294	1,389	1,355
Advances recoverable in cash or in kind or for value to be received	45	270	194	1,245
Total	368	564	1,583	2,600
Note: 9-Trade Receivables:				
Others- Considered good [Unsecured]	9,339	3,101	40,158	14,296
Total	9,339	3,101	40,158	14,296
Note: 10-Cash and Bank Balances:				
Balances with Banks	198	86	851	396
Total	198	86	851	396
Note: 11-Other Current Assets:				
[Unsecured, Considered good]				
Prepaid Expenses	853	682	3,668	3,144
Total	853	682	3,668	3,144
	MXN - Thousands		INR - Thousands	
	Year ended December 31			
	2014	2013	2014	2013
Note: 12-Employee Benefits Expense:				
Salaries and wages	39,536	32,500	181,075	149,825
Contribution to provident and other funds	6,431	3,569	29,454	16,453
Staff welfare expenses	2,704	1,079	12,384	4,974
Total	48,671	37,148	222,913	171,252
Note: 13-Finance Cost:				
Interest Expenses [*]	13	33	60	152
Bank Commission & Charges	12	24	55	111
Total	25	57	115	263
[*] The break up of interest cost in to major heads is given below:				
On term loans	8	27	37	124
Others	5	6	23	28
Total	13	33	60	152
Note: 14-Other Expenses:				
Traveling Expenses	930	450	4,259	2,075
Legal and Professional Fees	484	528	2,217	2,434
Exchange Rate difference due to translation [Refer Note2 (*)]	-	-	-	404
Miscellaneous Expenses [*]	215	273	985	1,259
Total	1,629	1,251	7,461	6,172
[*] Miscellaneous Expenses include Payment to the auditors as "Auditor"				
Note: 15-Calculation of Earnings per Equity Share [EPS]:				
The numerators and denominators used to calculate the basic and diluted EPS are:				
A Profit/ (Loss) attributable to Shareholders	740	(6,628)	3,389	(30,960)
B Basic and weighted average number of Equity shares outstanding during the year	5,244,191	1,319,390	1,319,390	1,319,390
	MXN		INR	
C Nominal value of equity share	1	1		
D Basic & Diluted EPS	0.14	(5.02)	2.57	(23.47)

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Notes to the Financial Statements

Note: 16-Segment Information:

There is only one segment namely, "Rendering of administrative and personnel services".

Note: 17-Related Party Transactions:

A Name of the Related Parties and Nature of the Related Party Relationship:

a Holding Company:	Zydus International Private Limited
b Ultimate Holding Company:	Cadila Healthcare Limited
c Fellow Subsidiaries:	
Dialforhealth India Limited	Zydus Healthcare (USA) LLC [USA]
Dialforhealth Unity Limited	Zydus Novelttech Inc. [USA]
Dialforhealth Greencross Limited	Hercon Pharmaceuticals LLC [USA]
German Remedies Limited	Zydus Healthcare S.A. (Pty) Ltd [South Africa]
Zydus Wellness Limited	Simayla Pharmaceuticals (Pty) Ltd [South Africa]
M/s. Zydus Wellness-Sikkim, a Partnership Firm	Script Management Services (Pty) Ltd [South Africa]
Liva Pharmaceuticals Limited	Zydus Nikkho Farmaceutica Ltda. [Brazil]
Zydus Technologies Limited	Zydus Pharma Japan Co. Ltd. [Japan]
Biochem Pharmaceutical Industries Limited	Laboratorios Combix S.L. [Spain]
Zydus BSV Pharma Private Limited	Zydus Pharmaceuticals Mexico SA De CV [Mexico]
M/s. Zydus Healthcare, a Partnership Firm	ZAHL B.V. [the Netherlands]
Zydus Lanka (Private) Limited [Sri Lanka]	ZAHL Europe B.V. [the Netherlands]
Zydus Netherlands B.V. [the Netherlands]	Bremer Pharma GmbH [Germany]
Zydus France, SAS [France]	Zydus Pharmaceuticals (USA) Inc. [USA]
Etna Biotech S.R.L. [Italy]	Zydus Worldwide DMCC [Dubai]
Zydus Healthcare Philippines Inc [Philippines]	Zydus Discovery DMCC [Dubai]
Nesher Pharmaceuticals (USA) LLC [USA]	
d Administrator:	Mr. Prashant Jayantbhai Desai

B Transactions with Related Parties:

The following transactions were carried out with the related parties in the ordinary course of business:

a Details relating to parties referred to in items 17-A [a, b & c].

	<u>MXN - Thousands</u>		<u>INR - Thousands</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<u>Year ended December 31</u>			
Purchase of Services:				
Cadila Healthcare Limited	6	23	27	106
Sale of Services:				
Zydus Pharmaceuticals Mexico SA De C.V.	51,844	32,307	237,446	148,935
Issue of Share Capital:				
Zydus International Private Limited	4,282		18,413	-
Inter Company Loan (Repaid)/ Accepted :				
Zydus Pharmaceuticals Mexico SA De C.V.	(619)	31	(2,662)	143
Interest paid:				
Zydus Pharmaceuticals Mexico SA De C.V.	8	27	37	124
			<u>As at December 31</u>	
Outstanding:	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Receivable:				
Zydus Pharmaceuticals Mexico SA De C.V.	9,339	3,101	40,158	14,296
Payable:				
Cadila Healthcare Limited	3	23	13	106
Zydus Pharmaceuticals Mexico SA De C.V.	-	619	-	2,854
Total	3	642	13	2,960

b There are no transactions with the parties referred to in item no. 17 A [d].

Note: 18-Going Concern:

The company had accumulated losses of MXN 8,005 Thousands and company's total liabilities exceed its assets by MXN 2,404 Thousands. The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ultimate holding company, Cadila Healthcare Ltd. [CHL] has given an assurance to provide continuous financial support to the Company to meet its financial commitments and liabilities as and when they fall due.

Zydus Pharmaceuticals Mexico Service Co. SA De C.V.
Notes to the Financial Statements

Note: 19

Previous year's figures have been regrouped/ reclassified wherever necessary to correspond with the current year's classifications/ disclosure.

Signatures to Significant Accounting Policies and Notes 1 to 19 to the Financial Statements

As per our report of even date

For Mukesh M. Shah & Co.

Chartered Accountants

Firm Registration Number: 106625W

For and on behalf of the Board

Chandresh S. Shah

Partner

Membership Number: 042132

Ahmedabad, Dated: May 14, 2015

Sole Administrator