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

Financial statements

March 31, 2019
(with comparative figures for 2018)

(With the Independent Auditors' Report Thereon)

Laboratorios Torrent, S. A. de C. V.

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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, 2019 and 2018, and the statements of 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, 2019 and 2018, 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(l) to the accompanying financial statements, the sales carried out with five main customers represented approximately 82% and 85%, in 2019 and 2018 respectively; the main supplier is its parent company, from which the Company made 100% 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.

(Continued)

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.

Edgar de la Rosa

Mexico City, April 22, 2019.

Laboratorios Torrent, S. A. de C. V.

Statements of financial position

March 31, 2019 and 2018

(Pesos)

Assets	2019	2018
Current assets:		
Cash and cash equivalent (note 4)	$ 14,270,308	9,813,561
Accounts receivables, net (note 7)	21,431,182	20,995,996
Torrent Pharmaceuticals Limited, parent company (note 8)	3,445,331	819,302
Other receivables (note 9)	8,733,303	12,753,731
Inventories, net (note 10)	11,858,083	7,167,292
Prepayments (note 11)	2,042,922	3,438,670
Total current assets	61,781,129	54,988,552
Furniture, equipment and leasehold improvements, net (note 12)	5,212,556	6,137,053
Other assets	1,028,321	907,123
	$ 68,022,006	62,032,728

Liabilities and stockholders' equity	2019	2018
Current liabilities:		
Trade accounts payable	1,694,461	4,463,941
Other liabilities	1,079,877	1,107,677
Accruals (note 13)	5,370,094	4,470,048
Employee statutory profit sharing	759,561	1,143,679
Torrent Pharmaceuticals Limited, parent company (note 8)	10,143,459	9,496,540
Total current liabilities	19,047,452	20,681,885
Employee benefits (note 14)	3,721,026	3,299,088
Total liabilities	22,768,478	23,980,973
Stockholders' equity (note 16):		
Capital stock	74,741,000	74,741,000
Deficit	(29,487,472)	(36,689,245)
Total stockholders' equity	45,253,528	38,051,755
	$ 68,022,006	62,032,728

See accompanying notes to financial statements.

Laboratorios Torrent, S. A. de C. V.

Statements of income

Years ended March 31, 2019 and 2018

(Pesos)

		2019	2018
Net revenue (note 17)	$	116,123,651	106,921,298
Cost of goods sold (notes 8 and 17)		22,952,830	17,115,778
Gross profit		93,170,821	89,805,520
General expenses (notes 8 and 17)		87,248,181	79,611,124
Other income, net		387,945	454,633
Operating income		6,310,585	10,649,029
Financial result:			
Interest income		952,956	245,830
Foreign exchange loss, net		(61,768)	(127,954)
Financial result, net		891,188	117,876
Net income	$	7,201,773	10,766,905

See accompanying notes to financial statements.

Laboratorios Torrent, S. A. de C. V.

Statements of changes in stockholders' equity

Years ended March 31, 2019 and 2018

(Pesos)

		Capital stock	Deficit	Total stockholders' equity
Balances as of March 31, 2017	$	74,741,000	(47,456,150)	27,284,850
Net income		-	10,766,905	10,766,905
Balances as of March 31, 2018		74,741,000	(36,689,245)	38,051,755
Net income		-	7,201,773	7,201,773
Balances as of March 31, 2019	$	74,741,000	(29,487,472)	45,253,528

See accompanying notes to financial statements.

Laboratorios Torrent, S. A. de C. V.

Statements of cash flows

Years ended March 31, 2019 and 2018

(Pesos)

		2019	2018
Cash flows from operating activities:			
Net income	$	7,201,773	10,766,905
Items relating to investing activities:			
Depreciation and amortization		1,058,258	1,014,198
Gain on sale of furniture and equipment		-	(14,411)
Interest income		(952,956)	(245,830)
Subtotal		7,307,075	11,520,862
Accounts receivable		(435,186)	(8,658,094)
Accounts receivable from parent company		(2,626,029)	2,418,075
Other receivables		4,020,428	2,535,438
Inventories		(4,690,791)	(168,141)
Prepayments		1,395,748	(875,348)
Trade accounts payable		(2,769,480)	2,157,978
Other liabilities		(27,800)	(41,612)
Accruals		900,046	391,123
Changes in direct employee benefits and employee statutory profit sharing paid		37,820	1,627,947
Accounts payable to parent company		646,919	(6,772,014)
Net cash provided by operating activities		3,758,750	4,136,214
Cash flows from investing activities:			
Capital expenditures		(133,761)	(159,066)
Proceeds from sale of furniture and equipment		-	67,155
(Increase) decrease in other non-current assets		(121,198)	3,163,428
Interest received		952,956	245,830
Net cash received from investing activities		697,997	3,317,347
Net increase in cash and cash equivalents		4,456,747	7,453,561
Cash and cash equivalents:			
At beginning of year		9,813,561	2,360,000
At end of year	$	14,270,308	9,813,561

See accompanying notes to financial statements.

Laboratorios Torrent, S. A. de C. V.

Notes to financial statements

For the years ended March 31, 2019 and 2018

(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 address of the Company's is Av. Insurgentes Sur No. 2453, Floor 8, Col. Tizapan, Z.C. 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 22, 2019, Mr. Bhavik Kumar Rajendrabhai Kamdar, 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. 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.

Information about assumptions and estimation uncertainties as of March 31, 2019 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 next page.

(Continued)

- Note 7 – revenue recognition: estimate of discounts and expected returns.
- Note 12 – carrying amount of furniture, equipment and leasehold improvements determination of estimated useful lives.
- Note 14 – measurement of defined benefit obligations: key actuarial assumptions.
- Note 15 – 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 presents comprehensive income in a single statement of net income or loss entitled "Statement of Income" given that the Company did not generate Other Comprehensive Income (OCI) during the current year or the preceding year, which is presented for comparative purposes.

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 on the following page have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

(Continued)

(a) Cash and cash equivalents-

Cash and cash equivalents 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 income.

(b) Financial instruments

i. Investments

Investments in mutual funds are primarily held for the Company's temporary cash requirements and can be readily convertible in cash. These investments are initially recorded at fair value and classified as fair value through profit or loss. Investments in corporate deposits are carried at amortised cost.

The Company has made an irrevocable election to present subsequent changes in the fair value of equity investments, not held for trading, in other comprehensive income.

ii. Trade receivables

Trade receivables are amounts due from customers for sale of goods or services performed in the ordinary course of business. Trade receivables are initially recognized at its transaction price which is considered to be its fair value and are classified as current assets as it is expected to be received within the normal operating cycle of the business.

iii. Borrowings

Borrowings are initially recorded at fair value and subsequently measured at amortized costs using effective interest method. Transaction costs are charged to statement of profit and loss as financial expenses over the term of borrowing.

iv. Trade payables

Trade payables are amounts due to vendors for purchase of goods or services acquired in the ordinary course of business and are classified as current liabilities to the extent it is expected to be paid within the normal operating cycle of the business.

v. Other financial assets and liabilities

Other non-derivative financial instruments are initially recognized at fair value and subsequently measured at amortized costs using the effective interest method.

vi. De-recognition of financial assets and liabilities

The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction which substantially all the risk and rewards of ownership of the financial asset are transferred. If the Company retains substantially all the risk and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(Continued)

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired; the difference between the carrying amount of derecognized financial liability and the consideration paid is recognized as profit or loss.

vII. Impairment

The Company measures loss allowances at an amount equal to lifetime Expected Credit Loss (ECLs) for financial asstets measured at amortized cost.

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.

Continued)

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. The Company expects no significant recovery from the amount written off. 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.

Financial risk management policies

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.

(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 on the next page.

(Continued)

	Useful life years
Office furniture and equipment	10
Leasehold improvements	10
Computer equipment	3
Software	4

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.

(f) Other assets-

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

(g) 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.

(h) 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.

(i) 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)

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 elegible 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.

(j) 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)

(k) Revenue from contracts with customers-

Effective April 1, 2018, the Company has applied FRS D-1 "Revenue from contracts with Customers", which outlines single comprehensive model for accounting of revenue arising from contracts with customers and supersedes IAS 18 "Revenue" and FRS D-7 "Construction contracts". The Company applied FRS D-1 using the modified retrospective approach.

Revenue is measured based on the transaction price adjusted for discounts and rebates, which is specified in a contract with customer. Revenue are net of estimated returns and taxes collected from customers.

Revenue from sale of goods is recognized at point in time when control are transferred to the customer and it is probable that consideration will be collected. Control of goods is transferred upon the shipment of the goods to the customer or when goods is made available to the customer, provided the Company has not retained any significant risks of ownership or future obligations in respect to the goods shipped.

The transaction price is documented on the sales invoice and payment is generally due as per agreed credit terms with customer.

Sales returns are estimated on the basis of historical experience, market conditions and specific contractual terms and provided for in the year of sale as reduction from revenue. The methodology and assumptions used to estimate returns are monitored and adjusted regularly in line with contractual and legal obligations, trade practices, historical trends, past experience and projected market conditions.

Revenue from services is recognized at the point in time when the services are performed or when contracted milestones have been achieved.

(l) 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 82% in 2019 and 85% en 2018, of the Company's net sales.

The principal supplier is Torrent Pharmaceuticals Ltd, parent company, from which the Company made the 100% of the total purchases ot finished goods in 2019 and 2018.

(m) 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.

(Continued)

Laboratorios Torrent, S. A. de C. V.

Notes to financial statements

(Mexican pesos)

(n) 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.

(4) Cash and cash equivalents-

Cash and cash equivalents comprise the following:

		2018	2017
Petty cash	$	5,013	5,013
Bank		119,371	1,973,591
Investment		14,145,924	7,834,957
	$	14,270,308	9,813,561

(5) Foreign currency exposure-

Monetary liabilities denominated in dollars translated into the reporting currency, as of March 31, 2019 and 2018, are as follows:

		In U.S. dollars	
		2019	2018
Current liabilities	$	1,563	20,286

		Mexican pesos	
		2019	2018
Current liabilities	$	**30,281**	**372,151**

Transactions denominated in foreign currency were as follows:

		In U.S. dollars	
		2019	2018
Expenses:			
Market research	$	31,406	68,535
Guarantee commission		3,750	3,750
Audit fees		26,000	31,000
General charges		19,200	5,260

(Continued)

(Mexican pesos)

The exchange rates used in the various translation processes to the reporting currency at March 31, 2019 and 2018, were as follows:

		Exchange rate	
Country of origin	**Currency**	**2019**	**2018**
United States of America	Dollar	19.38	18.34

At April 17, 2019, date of issue of the financial statements, the exchange rate was $18.95.

At March 31, 2019, the Company did not have foreign exchange hedging instruments.

(6) 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 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.

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.

(Continued)

Laboratorios Torrent, S. A. de C. V.

Notes to financial statements

(Mexican pesos)

During the years ended March 31, 2019 and 2018, no impairmat losses over financial assets were recogniced, the increase (decrease) in the allowance for accounts is as shown below:

		2019	**2018**
Increase (decrease) in the in the allowance for impairment	$	499,725	(2,851235)

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

Cash and cash equivalents

The Company held cash and cash equivalents of $14,270,308 and $9,813,561 at March 31, 2019 and 2018, 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.

(Continued)

(Mexican pesos)

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.

(7) Accounts receivable-

Accounts receivable consist of the following:

		2019	2018
Trade	$	29,448,973	32,220,653
Less allowance for discounts and returns		7,489,837	11,196,428
Less allowance for doubtful accounts		527,954	28,229
	$	**21,431,182**	**20,995,996**

(8) Related-party transactions and balances-

Transactions carried out with related parties during the years ended March 31, 2019 and 2018 were as follows:

		2019	2018
Purchases from:			
Torrent Pharmaceuticals Limited	$	25,396,454	15,937,074
Reimbursement revenue:			
Torrent Pharmaceuticals Limited	$	3,445,331	3,582,252
Commission expenses:			
Torrent Pharmaceuticals Limited	$	72,651	69,572

(Continued)

(Mexican pesos)

As of March 31, 2019 and 2018, receivable balance with the parent company for $3,445,331 and $819,302, respectively, corresponds to duty expenses related the purchase of inventories, which the Company paid on behalf of the parent compamy.

As of March 31, 2019 and 2018, payable balance by $10,143,459 and $9,496,540, corresponds mainly to the purchase of inventories.

(9) Other receivables-

Other receivables consist of the following:

		2019	2018
Recoverable value-added tax	$	8,347,769	12,021,470
Other recoverable taxes		385,534	732,261
	$	**8,733,303**	**12,753,731**

(10) Inventories-

Inventories are comprised as follows:

		2019	2018
Finished goods	$	20,341,376	15,853,889
Less allowance for obsolete and slow-moving items		8,483,293	8,686,597
	$	**11,858,083**	**7,167,292**

(11) Prepayments-

Prepayments are comprised as follows:

		2019	2018
Insurance	$	312,102	2,085,051
Services		1,730,820	1,353,619
	$	**2,042,922**	**3,438,670**

(Continued)

(Mexican pesos)

(12) Furniture, equipment and leasehold improvements-

Furniture, equipment and leasehold improvements are comprised as below:

		March 31, 2019	March 31, 2018	April 1, 2017
Investment:				
Office furniture and fixtures	$	936,973	936,973	930,772
Computer equipment		1,179,167	1,045,406	1,011,156
Leasehold improvements		5,657,186	5,657,186	5,657,186
Software		1,304,890	1,304,890	1,304,890
		9,078,216	8,944,455	8,904,004
Accumulated depreciation:				
Office furniture and fixtures		232,257	138,560	45,122
Computer equipment		909,759	707,324	614,562
Leasehold improvements		1,418,754	853,035	287,316
Software		1,304,890	1,108,483	912,075
		3,865,660	2,807,402	1,859,075
	$	**5,212,556**	**6,137,053**	**7,044,929**

(13) Accruals-

Accruals include the following:

		Salaries and other personnel benefits	Fees	Other	Total
Balances at March 31, 2018	$	2,647,338	420,371	1,402,339	4,470,048
Increases recorded in earnings		3,298,306	338,948	1,732,840	5,370,094
Payments		(2,647,338)	(420,371)	(1,402,339)	(4,470,048)
Balances at March 31, 2019		**3,298,306**	**338,948**	**1,732,840**	**5,370,094**

(Mexican pesos)

(14) Employee benefits-

a) Short term direct benefits

As of March 31, 2019 and 2018, there are direct benefits for cumulative compensed absences to vacations and other compensation amounting to $3,298,306 and $2,647,338, respectively.

b) Post-Employment benefits

The Company has a defined benefit plan for pension, seniority premiun 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	
		2019	**2018**
Seniority premium	$	35,865	50,517
Legal compensation		1,504,124	2,084,706
	$	**1,539,989**	**2,135,223**

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The components of defined benefit cost for the years ended March 31, 2019 and 2018 are as shown below:

		Seniority premium		Legal compensation		Total	
		2019	**2018**	**2019**	**2018**	**2019**	**2018**
Current Service Cost (CLSA)	$	70,430	60,948	1,234,146	876,513	1,304,576	937,461
Prior Service Labor Cost provided in the year		-	-	263,288	1,513,824	263,288	1,513,191
Net interest on DBNL		16,715	12,696	259,317	210,699	276,032	223,395
Remeasurements of DBNL recognized in income of the period		(257)	(2,471)	98,977	64,461	98,720	61,990
Net cost for the period	**$**	**86,888**	**71,173**	**1,855,728**	**2,665,497**	**1,942,616**	**2,736,670**
Beginning balance of DBNL	$	(2,055)	(19,142)	199,748	334,014	197,693	314,872
Remeasurements generated		3,028	14,616	115,003	(69,805)	118,031	(55,189)
Remeasurements of the DBNL recognized in results of the period		257	2,471	(98,977)	(64,461)	(98,720)	(61,990)
Ending balance of DBNL		1,230	(2,055)	215,774	199,748	217,004	197,693
Net increase (decrease) in remeasurements of the DBNL	**$**	**3,285**	**17,087**	**16,026**	**(134,266)**	**19,311**	**(117,179)**
Defined benefit cost	**$**	**90,173**	**88,260**	**1,871,754**	**2,531,231**	**1,961,927**	**2,619,491**
Beginning balance of DBNL	$	191,458	153,715	3,107,630	2,661,105	3,299,088	2,814,820
Defined Benefit Cost		90,173	88,260	1,871,754	2,531,231	1,961,927	2,619,491
Payments charged to DBNL		(35,865)	(50,517)	(1,504,124)	(2,084,706)	(1,539,989)	(2,135,223)
Ending balance of DBNL	**$**	**245,766**	**191,458**	**3,475,260**	**3,107,630**	**3,721,026**	**3,299,088**

(Continued)

(Mexican pesos)

c) Reconciliation of the present value of the defined benefit obligation & fair vale of plan assets:

		2019	2018
Obligations at the end of the year	$	3,721,026	3,299,088
Liability recognized in statement of financial position	$	3,721,026	3,299,088
Experience adjustments gain / (loss)	$	197,410	11,659

d) Expected contribution for the next year

	$	-	-

e) Nominal rates used in actuarial calculations are as follows:

	2019	2018
Discount rate (net of inflation)	10.00%	9.50%
Rate of compensation increase	4.50%	4.50%
Average remaining employee labor life	10 years	8 years

f) 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.

	2019	2018
Impact of increase in discount rate by 1 %	(147,154)	(123,937)
Impact of decrease in discount rate by 1 %	163,018	137,244
Impact of increase in salary escalation rate by 1 %	157,154	132,585
Impact of decrease in salary escalation rate by 1 %	(143,856)	(121,514)
Impact of increase in employee turnover rate by 1 %	39,948	41,567
Impact of decrease in employee turnover rate by 1 %	(41,458)	(42,904)

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.

(Continued)

(Mexican pesos)

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 recognised in the Balance Sheet.

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

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

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:

		2019	2018
Computed "expected" tax expense	$	2,160,532	3,230,071
(Reduction) increase resulting from:			
Effects of inflation, net		(2,555,963)	(1,241,341)
Non-deductible expenses		152,260	804,395
Change in the valuation allowance for deferred tax assets		243,170	(2,793,125)
IT expense	$	-	-

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at March 31, 2019 and 2018, are presented below:

		2019	2018
Deferred tax assets:			
Allowance for doubtful receivables	$	158,386	8,469
Allowance for obsolete and slow moving		2,544,988	2,605,976
Allowance for discounts and returns		2,246,951	3,358,928
Accruals		1,611,028	1,341,014
Furniture, equipment and leasehold improvements		427,366	509,589
Employee benefits		591,643	524,555
Net operating loss carryforwards		3,525,399	3,217,817
ESPS		227,868	343,105
Total gross deferred tax assets		11,333,629	11,909,453
Less valuation allowance		11,239,998	10,996,828
Net deferred tax assets to next page	$	93,631	912,625

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		2019	2018
Net deferred tax assets from previous page	$	93,631	912,625
Deferred tax liabilities:			
Prepayments		93,631	625,515
Other		-	287,110
Total gross deferred tax liabilities		93,631	912,625
Net deferred tax liability (asset)	$	-	-

The valuation allowance for deferred tax assets as of April 1, 2019 and 2018 amounted to $10,996,828 and $13,789,953, respectively. The net change in the total valuation allowance for the years ended March 31, 2019 and 2018 was an increase of $1243,170 and a decrease of $2,793,125, respectively. In assessing the realizability of deferred tax assets, Management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. 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.

At March 31, 2019, operating loss carryforwards, expire as shown below:

Year		Operating loss carryforwards
2020	$	10,028,962
2026		1,722,372
	$	11,751,334

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, 2019 and 2018, are presented as follows:

		2019	2018
Deferred tax assets:			
Allowance for doubtful receivables	$	52,795	2,823
Allowance for obsolete and slow moving		848,329	868,659
Allowance for discounts and returns		748,984	1,119,642
Accruals		537,009	447,005
Furniture, equipment and leasehold improvements		142,455	169,863
Employee benefits		197,214	174,851
Total gross deferred tax assets to next page	$	2,526,786	2,782,843

(Mexican pesos)

		2019	2018
Total gross deferred tax assets form previous page	$	2,526,786	2,782,843
Less valuation allowance		2,495,576	2,478,635
Net deferred tax assets		31,219	304,208
Deferred tax liabilities:			
Prepayments		31,210	208,505
Other		-	95,703
Total gross deferred tax liabilities		31,210	304,208
Net deferred tax asset	$	**-**	**-**

(16) Stockholders' equity-

(a) Structure of capital stock-

At March 31, 2019, the stockholders' equity is represented as shown:

	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, 2019, 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 may be paid while the Company has a deficit.

(Continued)

(Mexican pesos)

(17) 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, 2019 and 2018 are shown below:

Net revenue are as follows:

		2019	2018
Sales of products	$	145,464,982	125,593,511
Revenue from services		3,445,331	4,737,813
Returns on sale		(30,141,224)	(19,228,207)
Discounts on sale		(2,645,438)	(4,181,819)
	$	**116,123,651**	**106,921,298**

The main ítems comprising cost of goods sold and general expenses at March 31, 2019 and 2018 are below:

Cost of goods sold

		2019	2018
Inventory consumption	$	20,762,671	14,859,428
Import costs		2,190,159	2,256,350
	$	**22,952,830**	**17,115,778**

General expenses

		2019	2018
Salaries and other benefits	$	51,310,122	44,798,679
Publicity		7,292,499	8,868,135
Market research		7,094,166	6,347,210
Leasing		6,238,781	4,788,044
Travel expenses		4,819,263	3,818,626
Professional and legal fees		1,113,967	2,996,076
Samples		2,258,351	1,765,123
Freight		758,444	748,185
Other		6,362,588	5,481,046
	$	**87,248,181**	**79,611,124**

(Mexican pesos)

(18) 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. Total rental expense, reported under administrative expenses, aggregated $6,238,781 in 2019 and $4,788,044 in 2018. Administrative offices payable through 2023 under these agreements are as shown:

2020		3,060,740
2021		3,085,043
2022		3,109,346
2023		3,133,649
	$	12,388,778

(b) There is a contingency liability arising from the labor obligations mentioned in note 3(i).

(c) The Company is involved in a number of lawsuits 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.

(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.

(19) Recently issued financial reporting standards-

The Consejo Mexicano de Normas de Información Financiera, A. C. (CINIF) has issued the FRS listed below:

FRS D-5 *"Leases"*- is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for users of FRS D-1 "Revenue from contracts with customers" and FRS D-2 "Costs from contracts with customers", prior to the initial application date of this FRS. It supersedes Bulletin D-5 "Leases". First time adoption of this FRS results in accounting changes in the financial statements, chiefly for the lessee, and provides for different recognition options. Main changes included the following:

- In the case of lessees, leases are no longer classified as operating or finance and the lessee is required to recognize a lease liability at the present value of lease rentals and a right-of-use asset for the same amount for all leases with a term of more than 12 months, unless the asset is of low value.

- A lessee recognizes depreciation or amortization of the right-of-use asset and interest on the lease liability.

- In the statement of cash flows, the lessee modifies the presentation of the related cash flows, since cash outflows are deducted from operating activities with an increase in cash outflows (financing activities).

- In a sale-and-leaseback transaction, the recognition of any gain or loss is modified when the seller-lessee transfers an asset to another entity and leases that asset back from the buyer-lessor.

- Lessor's accounting recognition does not change from the previous Bulletin D-5; only certain disclosure requirements are added.

Management is under the process of performing the corresponding analysis in order to estimate the possible effects derived from the implementation of FRS D-5

2019 FRS Revisions

In December 2018, CINIF issued a document called "2019 FRS Revisions" containing precise modifications to some of the existing FRS. The improvements made to the FRS does not result in accounting changes in the annual financial statements.