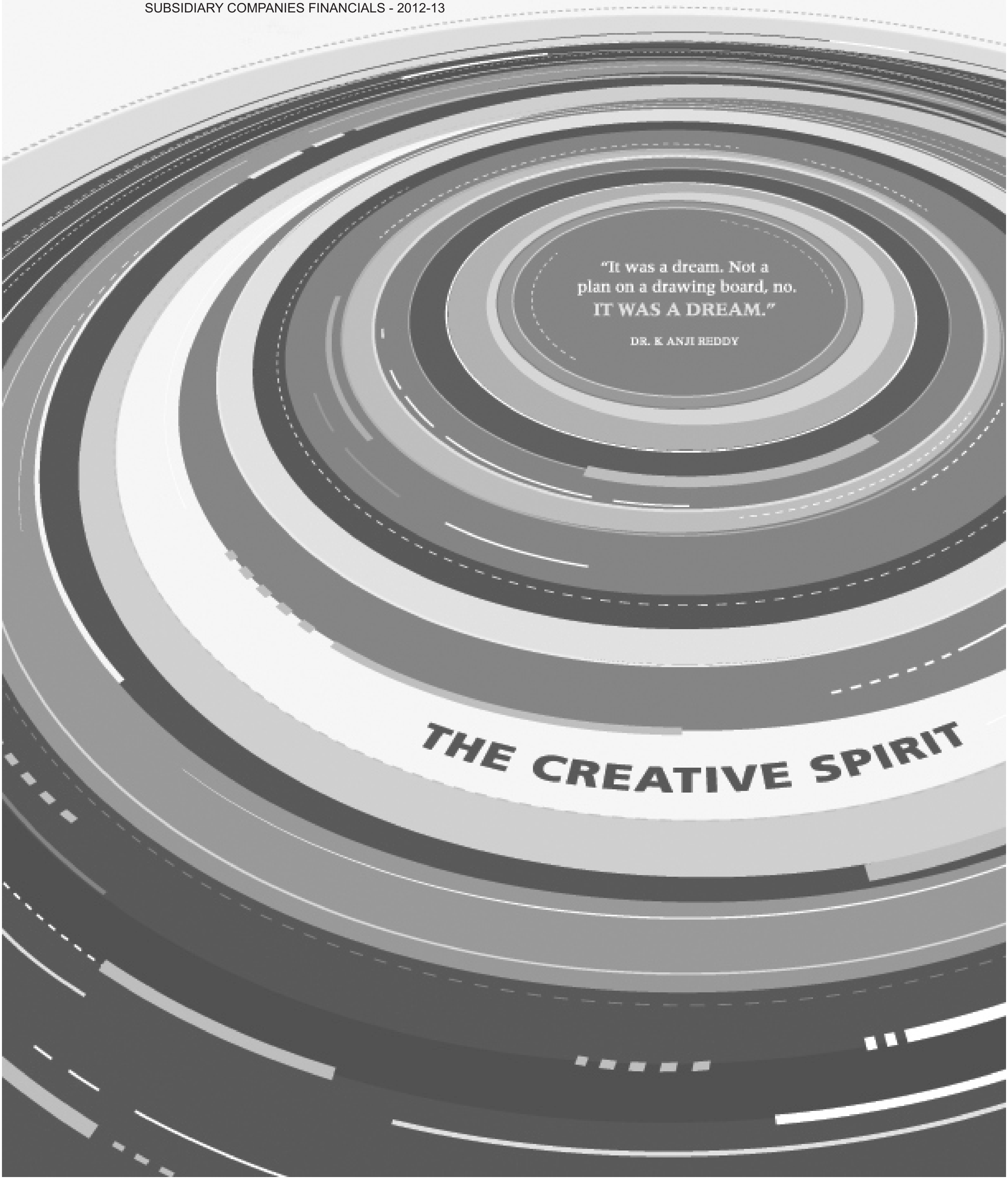
DR.REDDY'S

# DR. REDDY'S LABORATORIES LIMITED
## SUBSIDIARY COMPANIES FINANCIALS - 2012-13



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# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit for the period after taxation | 14,324 | 14,187 |
| Balance brought forward | (20,831) | (35,018) |
| Balance carried forward to Balance Sheet | (6,507) | (20,831) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Palanivel Sathasivam**
Director

**CSN Murthy**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Aurigene Discovery Technologies (Malaysia) SDN BHD.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 15,604 | 15,604 |
| Reserves and surplus | 2.2 | (6,505) | (20,829) |
| | | **9,099** | **(5,225)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 8,615 | 33,470 |
| | | **8,615** | **33,470** |
| **Current liablities** | | | |
| Trade payables | 2.4 | 89,115 | 25,998 |
| Other current liabilities | 2.5 | 83,443 | 6,869 |
| | | **172,558** | **32,867** |
| | **TOTAL** | **190,272** | **61,112** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 17,722 | 20,979 |
| Capital work-in-progress | | - | 245 |
| Long term loans and advances | 2.7 | 1,413 | 1,008 |
| | | **19,135** | **22,232** |
| **Current assets** | | | |
| Cash and bank balances | 2.8 | 170,084 | 38,262 |
| Short term loans and advances | 2.9 | 1,053 | 618 |
| | | **171,137** | **38,880** |
| | **TOTAL** | **190,272** | **61,112** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Palanivel Sathasivam**
Director

**C S N Murthy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Service income | | 348,801 | 152,937 |
| Other operating revenues | | 1,252 | - |
| **Revenue from operations** | | **350,053** | **152,937** |
| Other income | 2.10 | 979 | 3,114 |
| **Total revenue** | | **351,032** | **156,051** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 295,697 | 117,933 |
| Employee benefits expense | 2.11 | 12,395 | 7,016 |
| Depreciation and amortization expense | 2.6 | 5,080 | 4,287 |
| Other expenses | 2.12 | 23,536 | 12,628 |
| **Total expenses** | | **336,708** | **141,864** |
| **Profit before tax** | | **14,324** | **14,187** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit for the year** | | **14,324** | **14,187** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Palanivel Sathasivam**
Director

**C S N Murthy**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non-current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non-current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |

**e) Retirement benefits**

Contributions payable to employee pension and social security schemes, which are defined contribution schemes, are charged to the profit and loss account..

**f) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**g) Revenue recognition**

*Service income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on time proportion method.

**h) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 1,000,000 (previous year 1,000,000 ) shares of MYR 1 each | 15,604 | 15,604 |
| **Issued** | | |
| 1,000,000 (previous year 1,000,000) shares of MYR 1 each | 15,604 | 15,604 |
| **Subscribed and paid-up** | | |
| 1,000,000 (previous year 1,000,000) shares of MYR 1 each | 15,604 | 15,604 |
| | **15,604** | **15,604** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 1,000,000 | 15,604 | 100,000 | 1,239 |
| Shares issued during the year | - | - | 900,000 | 14,365 |
| Number of shares outstanding at the end of the year | **1,000,000** | **15,604** | **1,000,000** | **15,604** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of MYR 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Aurigene Discovery Technologies Limited | 1,000,000 | 100 | 1,000,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 2 | - |
| Additions / (deductions) during the year | - | 2 |
| | 2 | 2 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (20,831) | (35,018) |
| Add: Current year profit | 14,324 | 14,187 |
| Balance carried forward | (6,507) | (20,831) |
| | **(6,505)** | **(20,829)** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 8,615 | 33,470 |
| | **8,615** | **33,470** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 89,014 | 25,998 |
| Payables to others | 101 | - |
| | **89,115** | **25,998** |
| **2.5 : Other Current liabilities** | | |
| Accrued expenses | 2,628 | - |
| Other current liabilities | 80,815 | 6,869 |
| | **83,443** | **6,869** |

## Note 2 : Notes to Financial Statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Electrical Equipment | 377 | 5 | 5 | - | 377 | 171 | 65 | 5 | - | 231 | 146 | 206 |
| Lab equipment | 28,235 | 697 | 390 | - | 28,542 | 7,608 | 4,757 | 382 | - | 11,983 | 16,559 | 20,627 |
| Office equipment | 5,352 | 1,133 | 24 | - | 6,461 | 5,206 | 258 | 21 | - | 5,443 | 1,017 | 146 |
| **Total** | **33,964** | **1,834** | **419** | **-** | **35,380** | **12,985** | **5,080** | **408** | **-** | **17,657** | **17,722** | **20,979** |
| Previous Year | 28,620 | 5,344 | - | - | 33,964 | 8,698 | 4,287 | - | - | 12,985 | 20,979 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Long term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 1,413 | 1,008 |
| | **1,413** | **1,008** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 170,084 | 38,262 |
| | **170,084** | **38,262** |
| **2.9 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 654 | 429 |
| Prepaid expenses | 224 | 22 |
| Other Advances | 175 | 167 |
| | **1,053** | **618** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other income** | | |
| Interest income | 13 | 12 |
| Foreign exchange gain, net | 966 | 3,102 |
| | **979** | **3,114** |
| **2.11 : Employee benefits expense** | | |
| Salaries, wages and bonus | 10,715 | 6,147 |
| Contribution to provident and other funds | 1,296 | 776 |
| Staff welfare expenses | 384 | 93 |
| | **12,395** | **7,016** |
| **2.12 : Other expense** | | |
| Legal and professional | 13,940 | 7,587 |
| Carriage outward | 54 | - |
| Rates and taxes | 10 | 42 |
| Repairs and maintenance | | |
| Plant and machinery | 10 | - |
| Others | 3,262 | 183 |
| Power and fuel | 331 | 289 |
| Travelling and conveyance | 1,298 | 596 |
| Communication | 780 | 529 |
| Rent | 3,037 | 2,718 |
| Insurance | 1 | 30 |
| Printing and stationery | 209 | 167 |
| Bank charges | 50 | 40 |
| Miscellaneous | 554 | 447 |
| | **23,536** | **12,628** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**2.13: Related party disclosure:**

The Company has following amounts due from/to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Long term borrowings): Aurigene Discovery Technologies Ltd | 8,615 | 33,470 |
| ii. | Due to related parties (included in Trade payables) Aurigene Discovery Technologies Ltd | 89,014 | 25,998 |

**2.14: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.15:** The Company incorporated in Malaysia, is a 100% subsidiary of Aurigene Discovery Technologies Ltd.,

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Palanivel Sathasivam**
Director

**C S N Murthy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (9,641) | (723) |
| Balance brought forward | (222,692) | (221,969) |
| Balance carried forward to Balance Sheet | (232,333) | (222,692) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Aurigene Discovery Technologies Inc.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 210,307 | 210,307 |
| Reserves and surplus | 2.2 | (233,865) | (223,357) |
| | | **(23,558)** | **(13,050)** |
| **Non-current liabilities** | | | |
| Long term borrowings | 2.3 | 28,500 | 12,719 |
| | | **28,500** | **12,719** |
| **Current liablities** | | | |
| Other current liabilities | 2.4 | 2,984 | 2,517 |
| | | **2,984** | **2,517** |
| | **TOTAL** | **7,926** | **2,186** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 2.5 | 7,926 | 2,186 |
| | | **7,926** | **2,186** |
| | **TOTAL** | **7,926** | **2,186** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**G.V. Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.6 | 9 | - |
| **Total revenue** | | **9** | **-** |
| **Expenses** | | | |
| Employee benefits expense | 2.7 | 5,617 | - |
| Other expenses | 2.8 | 4,033 | 723 |
| **Total expenses** | | **9,650** | **723** |
| **Profit / (Loss) before tax** | | **(9,641)** | **(723)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(9,641)** | **(723)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G.V. Prasad**
Director

**Satish Reddy**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**c) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**d) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 6,000,000 (previous year: 6,000,000) Equity shares of USD 1 each | 276,000 | 276,000 |
| **Issued** | | |
| 4,400,000 (previous year: 4,400,000) Equity shares of USD 1 each | 210,307 | 210,307 |
| **Subscribed and paid-up** | | |
| 4,400,000 (previous year: 4,400,000) Equity shares of USD 1 each | 210,307 | 210,307 |
| | **210,307** | **210,307** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 4,400,000 | 210,307 | 4,400,000 | 210,307 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 4,400,000 | 210,307 | 4,400,000 | 210,307 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of USD 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Aurigene Discovery Technologies Limited | 4,400,000 | 100 | 4,400,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (665) | 865 |
| Additions / (deductions) during the year | (867) | (1,530) |
| | (1,532) | (665) |
| ***Deficit*** | | |
| Balance at the beginning of the year | (222,692) | (221,969) |
| Add: Current year loss | (9,641) | (723) |
| Balance carried forward | (232,333) | (222,692) |
| | **(233,865)** | **(223,357)** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 28,500 | 12,719 |
| | **28,500** | **12,719** |
| **2.4 Other current liabilities** | | |
| Due to holding company and other group companies | 1,093 | 2,442 |
| Accrued expenses | 1,890 | 75 |
| Other current liabilities | 1 | - |
| | **2,984** | **2,517** |
| **2.5 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 7,926 | 2,186 |
| | **7,926** | **2,186** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.6 : Other income** | | |
| Interest income | 9 | - |
| | **9** | **-** |
| **2.7 : Employee benefits expense** | | |
| Salaries, wages and bonus | 5,617 | - |
| | **5,617** | **-** |
| **2.8 : Other expense** | | |
| Legal and professional | 2,799 | 73 |
| Rates and taxes | 22 | - |
| Travelling and conveyance | 550 | - |
| Bank charges | 8 | 46 |
| Miscellaneous | 654 | 604 |
| | **4,033** | **723** |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.9. Related party disclosures**

The Company has following amounts due from/to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Other Current Liabilities): Dr. Reddy's Laboratories Inc. | 1,093 | 2,442 |
| ii. | Due to related parties (included in Long term borrowings): Aurigene Discovery Technologies Limited | 28,500 | 12,719 |

**2.10. Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.11.** The Company incorporated in the United States of America, is a 100% subsidiary of Aurigene Discovery Technologies Ltd.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G.V. Prasad**
Director

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 12th Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Income | 16,376 | 16,802 |
| Profit Before Tax | 5,624 | 4,859 |
| Tax Expenses | 1,903 | 1,600 |
| Profit After Tax | 3,721 | 3,259 |
| Proposed Dividend on 8% Cumulative Preference Shares | 118 | 276 |
| Tax on dividend | 20 | 45 |
| Transfer to general reserve | - | 244 |
| Net Profit | 3,583 | 2,693 |
| Loss brought forward | (708) | (3,402) |
| Profit (Loss) carried forward to Balance Sheet | 2,875 | (708) |

**Dividend**

Your Directors recommend dividend on 8% Cumulative Redeemable Preference Shares accumulated till the financial year ending 31 March 2013. The total accumulated dividend works out to ₹ 118 lakhs.

**Subsidiary Companies**

The Company has two wholly owned subsidiaries, namely M/s. Aurigene Discovery Technologies Inc. and M/s. Aurigene Discovery Technologies (Malaysia) Sdn Bhd as on 31 March 2013. The documents / statement, pursuant to the provision of Section 212(1) of the Companies Act, 1956 are attached to the Balance Sheet of your Company.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Directors**

Mr. G V Prasad, retires by rotation at the ensuing Annual General Meeting scheduled to be held on 29 July 2013, and being eligible seeks re-appointment. Your Directors recommend his re-appointment for your approval at the ensuing AGM.

Mr. Umang Vohra has resigned from the Board of Directors of the Company with effect from 18 January 2013. The Board accorded its deep appreciation for the services rendered by him during his term.

The Board of Directors had appointed Mr. Saumen Chakraborty as an Additional Director on the Board of Directors of the Company effective 16 January 2013. He will hold this office till the conclusion of the 12th Annual General Meeting of the Company. Requisite notice under Section 257 of the Companies Act, 1956 has been received from a member proposing his appointment. It is proposed to appoint him as a Director of the Company liable to retire by rotation. The resolution for the same has been included in the notice of the 12th Annual General Meeting of the Company.

**Audit Committee**

The Audit Committee consists of Mr. G.V. Prasad, Mr. Satish Reddy and Mr. Saumen Chakraborty as members of the Committee. All the members of the Audit Committee are non-executive Directors and one of them is having financial and accounting knowledge. The Audit Committee met three times during the year: on 1 May 2012, 10 October 2012 and 18 January 2013.

The functions of the Audit Committee are to:

a) Hold discussions with the Auditors periodically about internal control systems and the scope of audit including observations of the auditors;

b) Review of the half-yearly and annual financial statements before submission to the Board; and

c) Ensure the compliance of internal control systems in the Company.

**Auditors**

The Statutory Auditors of the Company M/s B S R & Co., Chartered Accountants, Bangalore, retire at the ensuing 12th Annual General Meeting and have confirmed their eligibility and willingness to accept office of Auditors, if re-appointed. The Audit Committee and the Board of Directors recommend re-appointment of M/s B S R & Co., Chartered Accountants, Bangalore, as Statutory Auditors of the Company for the financial year 2013-14 for shareholder’s approval.

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on an on-going concern basis.

**Particulars of Employees**

Pursuant to the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of employees are set out in the Annexure – 1 to the Directors’ Report.

**Conservation of energy and technology absorption**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy and technology absorption are not applicable to your Company.

**Foreign exchange earnings and outgo**

Please refer information given in the notes to the Annual Accounts of the Company in Schedule 22 Notes on accounts item no. ‘b’ to item no. ‘e’.

**Acknowledgement**

Your Directors place on record their sincere appreciation for significant contribution made by the employees through their dedication, hard work and commitment. We also acknowledge the support extended to us by the bankers, government agencies and shareholder to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 26 April 2013 | Director | Director |

**Annexure-1 to the Directors' Report**

**STATEMENT OF PARTICULARS OF EMPLOYEES AS PER PROVISIONS OF SEC. 217 (2A) OF THE COMPANIES ACT, 1956.**

Employed for full year

| Sl No. | Name of the Employee | Age | Designation | Gross Remuneration (in ₹ 000's) | Qualification | Experience in Years | Date of Commencement of Employment | Particulars of Last Employment |
|---|---|---|---|---|---|---|---|---|
| 1 | CSN Murthy | 45 | CEO | 13,954 | B Tech, MBA | 22 | 1st April 2005 | General Manager-Corporate Business Development, Dr. Reddy's Laboratories Limited |
| 2 | Dr. Murali Ramachandra | 51 | Vice President - Pre Clinical Biology | 10,111 | PhD | 23 | 1st April 2005 | Senior Principal Scientist, Schering Plough Corporation, USA |
| 3 | Dr. Hosahalli Subramanya | 49 | Vice President - SGDD | 9,627 | PhD | 19 | 16th October 2002 | Asst. Director, CDRI, Lucknow |
| 4 | Dr. Chetan Pandit | 51 | Director - Medicinal Chemistry | 6,511 | PhD | 19 | 2nd April 2007 | Group Leader, Naeja Pharmaceuticals |

Employed for part of the year

| Sl No. | Name of the Employee | Age | Designation | Gross Remuneration (in ₹000's ) | Qualification | Experience in Years | Date of Commencement of Employment | Particulars of Last Employment |
|---|---|---|---|---|---|---|---|---|
| 1 | Nagraj Koneripalli | 45 | CBO | 6,410 | MBA, Phd | 22 | 14th April 2011 | Executive Vice-President, Rallis India Ltd |
| 2 | Dr. Saumitra Sengupta | 55 | Vice President - Medicinal Chemistry | 1,706 | PhD | 19 | 14th March 2005 | Reader- Department of Organic Chemistry, Jadhavpur University |

Note:

1) None of the employee mentioned above is a relative of any Director or manager of the Company

2) No individual employee is holding equivalent to or more than 2% of the shareholding of the Company as on 31 March 2013.

3) The remuneration ceiling for above disclosure has been revised to ₹ 60 lacs per annum/ ₹ 5 lacs per month vide notification of the Ministry of Corporate Affairs, published in Gazzette of India vide GSR No. GSR 289(E) on 31 March 2011.

# AUDITOR'S REPORT

**To**

**The Members**
Aurigene Discovery Technologies Limited
Bangalore.

**Report on the Financial Statements**

We have audited the accompanying financial statements of **Aurigene Discovery Technologies Limited** ("the Company"), which comprise the Balance Sheet as at 31 March 2013 and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of 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, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956 ("the Act"). 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 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 India:

(i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

(ii) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

(iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

1. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

2. As required by section 227(3) of the Act, we report that:

   a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

   b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;

   c. the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement dealt with by this Report are in agreement with the books of account;

   d. in our opinion, the Balance Sheet, Statement of Profit and Loss and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956; and

   e. on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors are disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

For **B S R & Co.**
*Chartered Accountants*
Firm Reg. No. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814

Place : Bangalore
Date : 26 April 2013

The Annexure referred to in our report to the members of Aurigene Discovery Technologies Limited ("the Company") for the year ended 31 March 2013. We report that:

(i) (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

(b) The Company has a regular programme of physical verification of its fixed assets by which all fixed assets are verified over a period of three years. In our opinion, the periodicity of physical verification is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) Fixed assets disposed of during the year were not substantial, and therefore, do not affect the going concern assumption.

(ii) (a) The inventory of consumables has been physically verified by the management during the year. In our opinion, the frequency of such verification is reasonable.

(b) The procedures of physical verification of consumables followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventories. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) The Company has neither granted nor taken any loans, secured or unsecured, to or from companies, firms or other parties covered in the register maintained under section 301 of the Companies Act, 1956.

(iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that the services provided by the Company are for the specialized requirements of the customer and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to sale of services. The activities of the Company, during the year, did not involve sale of goods. We have not observed any major weakness in internal control system during the course of the audit.

(v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in section 301 of the Companies Act, 1956 have been entered in the register required to be maintained under that section.

(b) In our opinion, and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred above have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except for services provided by the Company for the specialized requirements of the buyers and for which suitable alternative sources are not available to obtain comparable quotations. However, on the basis of information and explanations provided, the same appear reasonable.

(vi) The Company has not accepted any deposits from the public.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) The Central Government of India has not prescribed the maintenance of cost records under section 209(1)(d) of the Companies Act, 1956 in respect of services rendered by the Company.

(ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Income-tax, Sales-tax, Service tax, Customs duty, Cess and other material statutory dues have generally been regularly deposited with the appropriate authorities. As explained to us, the Company did not have any dues on account of Investor Education and Protection Fund, Wealth tax and Excise duty. We are informed that the provisions of the Employees' State Insurance Act, 1948 ("ESI") are not applicable to the Company.

According to the information and explanations given to us, no undisputed amounts payable in respect of Provident Fund, Income-tax, Sales-tax, Service tax, Customs duty, Cess and other material statutory dues were in arrears as at 31 March 2013 for a period of more than six months from the date they became payable.

(b) As explained to us, the Company has no dues of Income tax, Customs duty, Service tax and Cess which have not been deposited with the appropriate authorities on account of any dispute except the following:

| Name of the Statute | Nature of the Dues | Amount (Rs) | Period to which the amount relates | Forum where dispute ispending |
|---|---|---|---|---|
| Karnatka Sales Tax Act | Sales Tax Demand | 1,063,203* | Assessment year 2001-02 and 2002-03 | Karnataka Appellate Tribunal |

*Rs.1,063,203 payment has been made under protest to the sales tax authorities.

(x) The Company does not have accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

(xi) The Company did nothave outstanding dues to any financial institution, bank or debenture holders during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) In our opinion and according to the information and explanations given to us, no term loans were taken by the Company during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that funds raised on short-term basis have not been used for long-term investment.

(xviii) The Company has not made any preferential allotment of shares to companies/firms/parties covered in the register maintained under Section 301 of the Act.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

For **B S R & Co.**
*Chartered Accountants*
Firm Reg. No. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814

Place : Bangalore
Date : 26 April 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2 | 10,529 | 10,529 |
| Reserves and surplus | 3 | 3,501 | (81) |
| | | **14,030** | **10,448** |
| **Non-current liabilities** | | | |
| Other long-term liabilities | 4 | - | 666 |
| Long-term provisions | 5 | - | 239 |
| | | **-** | **905** |
| **Current liabilities** | | | |
| Trade payables | 6 | 682 | 1,079 |
| Other current liabilities | 7 | 450 | 392 |
| Short-term provisions | 8 | 2,054 | 2,003 |
| | | **3,186** | **3,474** |
| | **TOTAL** | **17,216** | **14,827** |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | 9 | | |
| - Tangible assets | | 5,876 | 6,412 |
| - Intangible assets | | 8 | 55 |
| - Capital work-in-progress | | 403 | 27 |
| | | **6,287** | **6,494** |
| Non-current investments | 10 | 156 | 156 |
| Deferred tax assets (net) | 22(i) | 66 | 254 |
| Long-term loans and advances | 11 | 359 | 132 |
| | | **581** | **542** |
| **Current assets** | | | |
| Inventories | 12 | 60 | 54 |
| Trade receivables | 13 | 1,985 | 2,525 |
| Cash and bank balances | 14 | 7,494 | 3,935 |
| Short-term loans and advances | 15 | 665 | 729 |
| Other current assets | 16 | 144 | 548 |
| | | **10,348** | **7,791** |
| | **TOTAL** | **17,216** | **14,827** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 to 23 | | |

The accompanying notes are an integral part of financial statements

As per our report of even date attached

*for* **B.S.R & Co.**
*Chartered Accountants*
Firm registration no. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814
Place : Bangalore
Date : 26 April 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Ashish Lath**
Director - Finance & Manager

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Revenue from operations | 17 | 15,956 | 16,696 |
| Other income | 18 | 420 | 106 |
| | | **16,376** | **16,802** |
| Employee benefits expense | 19 | 4,238 | 4,446 |
| Finance costs | 20 | 127 | 87 |
| Depreciation and amortization expense | 9 | 1,043 | 1,127 |
| Other expenses | 21 | 5,345 | 6,283 |
| | | **10,753** | **11,943** |
| **Profit before tax** | | **5,623** | **4,859** |
| Tax expense: | | | |
| - current tax/ minimum alternate tax | | (1,715) | (1,157) |
| - minimum alternate tax credit utilisation | | - | (337) |
| - deferred tax charge | | (188) | (106) |
| **Profit after tax** | | **3,720** | **3,259** |
| **Earnings per share** | | | |
| **(equity shares, par value of ₹ 10 each)** | | | |
| - Basic (Par value, ₹ 10 each) | 22(j) | 3.96 | 3.45 |
| - Diluted (Par value, ₹ 10 each) | 22(j) | 3.96 | 3.45 |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 to 23 | | |

The accompanying notes are an integral part of financial statements

As per our report of even date attached
*for* **B.S.R & Co.**
*Chartered Accountants*
Firm registration no. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814

Place : Bangalore
Date : 26 April 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Ashish Lath**
Director - Finance & Manager

## Cash flow Statement

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 5,623 | 4,859 |
| Adjustments: | | | |
| Depreciation | | 1,043 | 1,127 |
| Provision for slow moving inventory | | (3) | 3 |
| Provision for interest on income tax | | 127 | 86 |
| Unrealised foreign exchange gain on cash and cash equivalents | | (205) | (90) |
| Profit on sale of fixed assets/ assets discarded | | (2) | (4) |
| Interest income | | (406) | (91) |
| Operating cash flows before working capital changes | | **6,177** | **5,890** |
| Decrease/(Increase) in trade receivables | | 540 | (335) |
| (Increase)/Decrease in inventories | | (3) | 17 |
| Decrease/(Increase) in unbilled revenue | | 397 | (212) |
| Increase / (Decrease) in loans and advances | | (286) | 37 |
| (Decrease)/ Increase in liabilities and provisions | | (1,562) | (735) |
| Cash generated from operations | | **5,263** | **4,662** |
| Income-tax paid | | (1,285) | (422) |
| ***Net cash provided by operating activities*** | ***a*** | **3,978** | **4,240** |
| **Cash flows from investing activities** | | | |
| Purchase of fixed assets | | (751) | (1,078) |
| Proceeds from sale of fixed assets | | 12 | 50 |
| Interest received | | 413 | 71 |
| Advances refunded by subsidiaries | | 269 | 202 |
| Advances given to subsidiaries | | (146) | (144) |
| Investment in fixed deposists having original maturity of more than 3 but less than 12 months. | | (6,380) | (100) |
| ***Net cash used in investing activities*** | ***b*** | **(6,583)** | **(999)** |
| **Cash flows from financing activities** | | | |
| Repayment of short term borrowings | | - | (265) |
| Repayment of long term borrowings | | - | (89) |
| Dividend paid | | (276) | - |
| Tax on dividend | | (45) | - |
| ***Net cash provided by financing activities*** | ***c*** | **(321)** | **(354)** |

## Cash flow Statement (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Net (decrease) /increase in cash and cash equivalents** | ***a+b+c*** | **(2,926)** | **2,887** |
| **Cash and cash equivalents at the beginning of the year** | | 3,835 | 858 |
| **Effect of exchange loss on cash and cash equivalents** | | 205 | 90 |
| **Cash and cash equivalents at the end of the year (Refer note 14)** | | **1,114** | **3,835** |

Note 1: The above cash flow statement has been prepared in accordance with the 'Indirect Method' as set out in the Accounting Standard (AS-3) on 'Cash Flow Statements', issued by Companies (Accounting Standard) Rules, 2006.

Note 2: Figures in bracket indicate cash outflow.

As per our report of even date attached
*for* **B.S.R & Co.**
*Chartered Accountants*
Firm registration no. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814

Place : Bangalore
Date : 26 April 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Ashish Lath**
Director - Finance & Manager

## 1. Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### Background

Aurigene Discovery Technologies Limited ('Aurigene' or 'the Company') was incorporated as a Private Limited Company on 10 August 2001. Subsequently, on 13 November 2001, the Company was converted into a Public Limited Company. The Company is promoted by Dr. Reddy's Laboratories Limited ('DRL') and is a wholly owned subsidiary of DRL. The main business activity of the Company is to undertake research relating to drug discovery for its customers. The Company commenced its commercial operations from 1 April 2003.

### a) Basis of preparation of financial statements

The financial statements of the Company have been prepared and presented in accordance with the Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under Section 211 (3C) of the Companies Act, 1956, and other pronouncements of Institute of Chartered Accountants of India and the provisions of Companies Act, 1956. The financial statements are rounded off to the nearest Indian Rupees lakhs.

### b) Current–non current classification

All assets and liabilities are classified into current and non current.

*Assets*

An asset is classified as current when it satisfies any of the following criteria:

a. it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b. it is held primarily for the purpose of being traded;

c. it is expected to be realised within 12 months after the reporting date; or

d. it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date. Current assets include the current portion of non-current financial assets.

All other assets are classified as non current.

*Liabilities*

A liability is classified as current when it satisfies any of the following criteria:

a. it is expected to be settled in the Company's normal operating cycle;

b. it is held primarily for the purpose of being traded;

c. it is due to be settled within 12 months after the reporting date; or

d. the company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification. Current liabilities include current portion of non-current financial liabilities.

All other liabilities are classified as non-current.

*Operating cycle*

Operating cycle is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**c) Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure relating to contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

**d) Inventories**

Consumables are valued at cost. Cost comprises purchase price and all incidental expenses incurred in bringing the inventory to its present location and condition. Cost is determined on the weighted average method.

**e) Revenue recognition**

The Company derives its revenue from business contracts with customers to carry out research related work. Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit or loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognized as revenue over the expected period over which the related services are expected to be performed.

Revenue earned in excess of billing has been reflected as unbilled revenues in the balance sheet.

Interest on deployment of funds is recognized using the time proportion method, based on underlying interest rates.

**f) Fixed assets and depreciation**

Fixed assets are carried at cost of acquisition or construction, less accumulated depreciation and impairment loss, if any. The cost of fixed assets includes freight, duties, taxes and other incidental expenses related to the acquisition of respective assets. Acquired intangible assets are recorded at the consideration paid for acquisition. Application software purchased is fully written off in the year of purchase.

Depreciation on fixed assets is provided on a straight line method. The rates of depreciation prescribed in Schedule XIV to the Companies Act, 1956 are considered as the minimum rates. If the management’s estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter than that envisaged in the aforesaid schedule, depreciation is provided at a higher rate based on the management’s estimate of the useful life or remaining useful life. Pursuant to this policy, depreciation on assets has been provided at the rates based on the following useful lives of fixed assets as estimated by management:

| Asset Description | Useful life |
|---|---|
| Buildings | 30 years |
| Laboratory equipment | 8 years |
| Electrical equipment | 8 years |
| Plant and machinery – others | 8 years |
| Computers | 3 years |
| Office equipment | 8 years |
| Furniture and fixtures | 8 years |

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | |
|---|---|
| Vehicles | 5 years |
| Technical know-how | 3 years |

Depreciation is charged on a time proportionate basis for all assets purchased and sold during the year. Individual assets costing less than Rs. 5,000 are depreciated in full in the year of purchase.

Cost of fixed assets not ready for intended use at the balance sheet date is disclosed under capital work-in-progress

**g) Borrowing costs**

Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

**h) Impairment of assets**

The Company periodically assesses whether there is any indication that an asset or a group of assets comprising a cash generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. For an asset or group of assets that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the statement of profit and loss. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost. An impairment loss is reversed only to the extent that the carrying amount of asset does not exceed the net book value that would have been determined; if no impairment loss had been recognised.

**i) Foreign currency transactions**

Foreign currency transactions during the year are recorded at the exchange rate prevailing on the date of the transaction. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated at the exchange rates on that date, the resultant exchange differences are recognized in the statement of profit and loss.

*Derivative instruments*

The Company uses derivatives to hedge its foreign currency risk exposure relating to firm commitments and highly probable transactions. In accordance with the relevant announcement of the Institute of Chartered Accountants of India, the Company provides for losses in respect of such outstanding derivative contracts at the balance sheet date by marking them to market. Net gain, if any, is not recognized. The contracts are aggregated category-wise, to determine the net gain/loss.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### j) Employee benefits

*Short-term employee benefits*

Employee benefits payable wholly within twelve months of receiving employee services are classified as short-term employee benefits. These benefits include salaries and wages, bonus and ex-gratia. The undiscounted amount of short-term employee benefits to be paid in exchange for employee services is recognised as an expense as the related service is rendered by employees.

*Post-employment benefits*

*Define contribution plan*

A defined contribution plan is a post-employment benefit plan under which an entity pays specified contributions to a separate entity and has no obligation to pay any further amounts. The Company makes specified monthly contributions towards employee provident fund to Government administered provident fund scheme which is a defined contribution plan.The Company's contribution is recognised as an expense in the statement of profit and loss during the period in which the employee renders the related service.

*Defined benefit plans*

The Company's gratuity benefit scheme is a defined benefit plan. The Company's net obligation in respect of a defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The calculation of the Company's obligation under the plans is performed annually by a qualified actuary using the projected unit credit method.

The Company recognises all actuarial gains and losses arising from defined benefit plans immediately in the statement of profit and loss. All expenses related to defined benefit plans are recognised in employee benefits expense in the statement of profit and loss. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in statement of profit and loss on a straight-line basis over the average period until the benefits become vested. The Company recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs.

*Compensated Absences*

Leave encashment payable to employees is accrued every month and the payment is made once in every year without carrying forward the liability beyond 12 month.

### k) Investments

Investments that are readily realisable and intended to be held for not more than a year from the date of acquisition are classified as current investments. All other investments are classified as long-term investments. However, that part of long term investments which is expected to be realised within 12 months after the reporting date is also presented under 'current assets' as "current portion of long term investments" in consonance with the current/non-current classification scheme of revised Schedule VI.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Long-term investments (including current portion thereof) are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investments i.e., equity shares, preference shares, convertible debentures etc.

Any reductions in the carrying amount and any reversals of such reductions are charged or credited to the Statement of Profit and Loss. Long term investments are carried at cost less other-than-temporary diminution in value, determined separately for each individual investment.

**l) Leases**

Assets acquired under leases other than finance leases are classified as operating leases. The total lease rentals (including scheduled rental increases) in respect of an asset taken on operating lease are charged to the Statement of Profit and Loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern of the benefit. Initial direct costs incurred specifically for an operating lease are deferred and charged to the Statement of Profit and Loss over the lease term.

Assets given by the Company under operating lease are included in fixed assets. Lease income from operating leases is recognised in the Statement of Profit and Loss on a straight line basis over the lease term unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished. Costs, including depreciation, incurred in earning the lease income are recognised as expenses. Initial direct costs incurred specifically for an operating lease are deferred and recognised in the Statement of Profit and Loss over the lease term in proportion to the recognition of lease income.

**m) Earnings per share**

The basic earnings per share is computed by dividing the net profit attributable to the equity shareholders for the year by the weighted average number of equity shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average number of shares considered for deriving basic earnings per share and also the weighted average number of equity shares, which could have been issued on the conversion of all dilutive potential shares. In computing dilutive earnings per share, only potential equity shares that are dilutive and that decrease profit per share are included.

**n) Taxation**

Income-tax expense comprises current tax (i.e. amount of tax for the year determined in accordance with the income-tax law) and deferred tax charge or credit (reflecting the tax effects of timing differences between accounting income and taxable income for the year). The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognized using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future; however, where there is unabsorbed depreciation or carry forward of business losses under taxation laws, deferred tax assets are recognized only if there is a virtual certainty of realization of such assets. Deferred tax assets are reviewed as at each

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

balance sheet date and written down or written-up to reflect the amount that is reasonably/ virtually certain (as the case may be) to be realized.

The Company offsets, on a year on year basis, current tax assets and liabilities, where it has a legally enforceable right and where it intends to settle such assets and liabilities on a net basis.

**o) Cash flow statement**

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non cash nature and any deferrals or accruals of past or future cash receipts or payments. The cash flow from regular revenue generating, investing and financing activities of the Company is segregated.

**p) Cash and cash equivalents**

Cash and cash equivalent in cash flow statement comprises cash on hand and demand deposits with bank that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value.

**q) Employee stock options**

The Company accounts for stock based compensation based on the intrinsic value method. ‘Option Discount’ has been amortised on a straight-line basis over the vesting period of the shares issued under Employee Stock Option Plans (‘ESOP’).

‘Option Discount’ means the excess of the market price/fair value of the underlying shares at the date of grant of the options over the exercise price of the options.

**r) Provision and Contingencies**

A provision is recognised if, as a result of a past event, the Company has a present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provisions are measured on an undiscounted basis.

*Onerous contracts*

A contract is considered as onerous when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision for an onerous contract is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

*Contingencies*

Provision in respect of loss contingencies relating to claims, litigation, assessment, fines, penalties, etc. are recognised when it is probable that a liability has been incurred, and the amount can be estimated reliably.

## Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2 : Share capital** | | |
| **Authorised** | | |
| 95,000,000 (Previous year : 95,000,000) equity shares of ₹ 10 each | 9,500 | 9,500 |
| 45,000,000 (Previous year : 45,000,000) 8% cumulative redeemable preference shares of ₹ 10 each | 4,500 | 4,500 |
| | **14,000** | **14,000** |
| **Issued, subscribed and fully paid up** | | |
| 90,544,104 (Previous year :90,544,104) equity shares of ₹ 10 each, fully paid up - [Refer note 1] | 9,054 | 9,054 |
| 14,750,000 (Previous year : 14,750,000) 8 % cumulative redeemable preference shares of ₹ 10 each, fully paid up. - [Refer note 2] | 1,475 | 1,475 |
| | **10,529** | **10,529** |

**Note 1**

Of the above issued, subscribed and paid up equity shares 90,544,088 (Previous year : 90,544,088) equity shares of ₹ 10 each fully paid up are held by Dr. Reddy's Laboratories Limited (DRL), the holding company and 16 (Previous year : 16) equity shares are held by the nominees of DRL. DRL is the ultimate holding company.

**Note 2**

8% cumulative redeemable preference shares 14,750,000 (Previous year : 14,750,000) preference shares of Rs. 10 each fully paid up is entirely held by DRL, the ultimate holding company as of these shares were allotted as fully paid-up pursuant to a Business Purchase Agreement without payments being received in cash. Further, these shares are redeemable in 5 years from the date of allotment at par and contain put and call options. Both put and call options are exercisable after 18 months from the date of allotment and on expiry of every 6 months thereafter.

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**a. Reconciliation of the number of shares outstanding at the beginning and at the end of the year**

(Number of shares)

| | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Equity shares** | | |
| Number of shares at the beginning of the year | 90,544,104 | 90,544,104 |
| Number of shares issued during the year | - | - |
| Number of shares outstanding at the end of the year | 90,544,104 | 90,544,104 |
| **Preference shares** | | |
| Number of shares at the beginning of the year | 14,750,000 | 14,750,000 |
| Number of shares issued during the year | - | - |
| Number of shares outstanding at the end of the year | 14,750,000 | 14,750,000 |

**b. List of persons holding more than 5 percent shares in the Company :**

| Name of the share holder | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of | % holding shares held | No. of | % holding |
| Dr. Reddy's Laboratories Limited (Holding company) | 90,544,088 | 100% | 90,544,088 | 100% |

**c. Aggregate number of shares issued for consideration other than cash during the period of five years immediately preceding the reporting date:**

(Number of shares)

| | As at 31 March 2013 | As at 31 March 2012 | As at 31 March 2011 | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|---|---|
| 14,750,000 (Previous year : 14,750,000) 8 % cumulative redeemable preference shares of Rs. 10 each, fully paid up | 14,750,000 | 14,750,000 | 14,750,000 | 14,750,000 | - |
| | **14,750,000** | **14,750,000** | **14,750,000** | **14,750,000** | **-** |

**d.** During the five year period ended on 31 March 2013 no shares have been bought back.

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|---|
| **3.** | **Reserves and surplus** | | | |
| | (i) | **Capital reserves** | | |
| | | Opening balance | 18 | 18 |
| | | Add: Additions during the year | - | - |
| | | Closing balance | **18** | **18** |
| | (ii) | **Securities premium account** | | |
| | | Opening balance | 288 | 288 |
| | | Add: Additions during the year | - | - |
| | | Closing balance | **288** | **288** |
| | (iii) | **Share options outstanding account** | | |
| | | Opening balance | - | 77 |
| | | Less: Transfer to general reserve on account of cancellation of outstanding ESOPs - Refer note 22(m) | - | 77 |
| | | Closing balance | **-** | **-** |
| | (iv) | **General Reserve** | | |
| | | Opening balance | 321 | - |
| | | Add: Addition on account of cancellation of ESOPs | - | 77 |
| | | Add: Compulsory transfer on account of proposed dividend | - | 244 |
| | | Closing balance | **321** | **321** |
| | (v) | **Surplus/ (deficit) in the statement of profit and loss** | | |
| | | Opening balance | (708) | (3,402) |
| | | Add: profit for the year | 3,720 | 3,259 |
| | | Less: Appropriations | | |
| | | Proposed dividend | (118) | (276) |
| | | Tax on dividend | (20) | (45) |
| | | Transfer to general reserve | - | (244) |
| | | Net deficit in the statement of profit and loss | **2,874** | **(708)** |
| | | | **3,501** | **(81)** |
| **4** | **Other long-term liabilities** | | | |
| | Income received in advance | | - | 666 |
| | | | **-** | **666** |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **5** | **Long-term provisions** | | |
| | Provision for employee benefits* | - | 239 |
| | | **-** | **239** |
| | *Refer Note 22(g) | | |
| **6** | **Trade payables** | | |
| | Trade payables | | |
| | - Dues to micro and small enterprises* | - | - |
| | - Dues to other creditors | 682 | 1,079 |
| | | **682** | **1,079** |
| | * Refer note 22(o) | | |
| **7** | **Other current liabilities** | | |
| | Income received in advance | 373 | 322 |
| | Other payables - statutory liabilities | 77 | 70 |
| | | **450** | **392** |
| **8** | **Short-term provisions** | | |
| | Provision for employee benefits. | 387 | 714 |
| | Provision for taxation, net of advance tax | 1,529 | 968 |
| | Provision for preference dividend | 118 | 276 |
| | Provision for tax on preference dividend | 20 | 45 |
| | | **2,054** | **2,003** |

## Notes to financial statements (Continued)

**9 : Fixed Assets**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | Depreciation / Amortisation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions/ Transfers | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| **Tangible, owned** | | | | | | | | | | |
| Land | 497 | 33 | - | 530 | - | - | - | - | 530 | 497 |
| Buildings | 2,749 | 37 | - | 2,786 | 709 | 92 | - | 801 | 1,985 | 2,040 |
| Laboratory equipment | 6,909 | 225 | 21 | 7,113 | 3,937 | 654 | 13 | 4,578 | 2,535 | 2,972 |
| Electrical equipment | 1,462 | 63 | - | 1,525 | 1,086 | 77 | - | 1,163 | 362 | 376 |
| Plant and machinery - others | 202 | 19 | - | 221 | 93 | 24 | - | 117 | 104 | 109 |
| Computers | 681 | 52 | - | 733 | 529 | 81 | - | 610 | 123 | 152 |
| Furniture and fixtures | 707 | 13 | - | 720 | 563 | 33 | - | 596 | 124 | 144 |
| Vehicles | 94 | 15 | 6 | 103 | 49 | 19 | 4 | 64 | 39 | 45 |
| Office equipment | 244 | 13 | - | 257 | 167 | 16 | - | 183 | 74 | 77 |
| **Total A** | **13,545** | **470** | **27** | **13,988** | **7,133** | **996** | **17** | **8,112** | **5,876** | **6,412** |
| **Intangible assets** | | | | | | | | | | |
| Technical know how | 140 | - | - | 140 | 85 | 47 | - | 132 | 8 | 55 |
| **Total B** | **140** | **-** | **-** | **140** | **85** | **47** | **-** | **132** | **8** | **55** |
| **Capital work-in-progress** | **27** | **403** | **27** | **403** | **-** | **-** | **-** | - | **403** | **27** |
| **Total C** | **27** | **403** | **27** | **403** | **-** | **-** | **-** | **-** | **403** | **27** |
| **Total D (A + B + C)** | **13,712** | **873** | **54** | **14,531** | **7,218** | **1,043** | **17** | **8,244** | **6,287** | **6,494** |
| Previous year | 12,789 | 1,150 | 227 | 13,712 | 6,141 | 1,127 | 50 | 7,218 | 6,494 | |

Note:- During the year the Company has executed sale deed with KIADB for the land and accordingly the land has been registered in the name of the Company.

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **10** | **Non-current investments** | | |
| | **Trade investments unquoted** | | |
| | **Investment in equity instrument** | | |
| | 4,400,000 (Previous year : 4,400,000) common stock of USD 1 each, fully paid up, of Aurigene Discovery Technologies Inc., U.S.A.,subsidiary Company | 2,083 | 2,083 |
| | 1,000,000 (Previous year : 1,000,000) Common stock of Malaysian Ringgits 1 each, fully paid up, of Aurigene Discovery Technologies (Malaysia) Sdn Bhd, Malaysian, subsidiary company | 156 | 156 |
| | **Total** | 2,239 | 2,239 |
| | Less : Provision for diminution in value of investments | (2,083) | (2,083) |
| | **Net Investments** | **156** | **156** |
| | Aggregate book value of unquoted investments | 2,239 | 2,239 |
| | Aggregate provision for diminution in value of investments | (2,083) | (2,083) |
| **11** | **Long-term loans and advances** | | |
| | **To parties other than related parties** | | |
| | Capital advances | | |
| | *(unsecured, considered good)* | 229 | 2 |
| | Security deposits | | |
| | *(Unsecured considered good )* | 24 | 24 |
| | Other loans and advances | | |
| | *Unsecured, considered good* | | |
| | Advance income tax | 106 | 106 |
| | | **359** | **132** |
| **12** | **Inventories** | | |
| | Consumables | 60 | 54 |
| | | **60** | **54** |
| **13** | **Trade receivables** | | |
| | Receivables outstanding for a period exceeding six month from the day they became due for payment | | |
| | Unsecured, considered good | 8 | 5 |
| | *Doubtful* | - | - |
| | Less: Provision for doubtful receivable | - | - |
| | | 8 | 5 |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| | Other receivables | | |
| | Unsecured considered good | 1,977 | 2,520 |
| | Doubtful | - | - |
| | Less: Provision for doubtful receivable | - | - |
| | | 1,977 | 2,520 |
| | | **1,985** | **2,525** |
| **14** | **Cash and bank balances** | | |
| | Cash on hand | 1 | 1 |
| | Balance with banks | | |
| | on current account | 608 | 1,709 |
| | on deposit account | | |
| | (with original maturity of 3 months or less) | 505 | 2,125 |
| | | 1,114 | 3,835 |
| | Other bank balances | | |
| | (due to mature withing 12 month of the reporting date) | 6,380 | 100 |
| | | **7,494** | **3,935** |
| **15** | **Short-term loans and advances** | | |
| | *Unsecured, considered good* | | |
| | Loans and advances to related parties * | 232 | 355 |
| | Loans and advances to employees | 23 | 13 |
| | Other loans and advances | 410 | 361 |
| | *Unsecured, considered doubtful* | | |
| | Loans and advances to related parties ** | 1,434 | 1,434 |
| | Less: Provision for doubtful loans and advances *** | (1,434) | (1,434) |
| | | **665** | **729** |
| | * Loans and advances to related parties considered good | | |
| | Aurigene Discovery Technologies, Malaysia | 86 | 355 |
| | Aurigene Discovery Technologies Inc- USA | 146 | - |
| | ** Loans and advances to related parties considered doubtful | | |
| | Aurigene Discovery Technologies Inc- USA | 1,434 | 1,434 |
| | *** Refer note 22(n) | | |
| | *Other loans and advances include:* | | |
| | Prepaid expenses | 146 | 151 |
| | Advances to suppliers | 132 | 80 |
| | VAT input credit | 84 | 82 |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| | Advance sales tax | 11 | 11 |
| | Security deposits | 4 | 4 |
| | Service tax input credit net | 19 | 20 |
| | Other receivables | 14 | 13 |
| | | **410** | **361** |
| **16** | **Other current assets** | | |
| | Unbilled revenue | 131 | 528 |
| | Interest accrued on fixed deposits | 13 | 20 |
| | | **144** | **548** |

| | Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **17** | **Revenue from operations** | | |
| | Income from services | 15,956 | 16,696 |
| | | **15,956** | **16,696** |
| **18** | **Other income** | | |
| | Interest income | 406 | 91 |
| | Net gain on sale of fixed assets | 2 | 4 |
| | Other non-operating income | 12 | 11 |
| | | **420** | **106** |
| **19** | **Employee benefits expense** | | |
| | Salaries and wages | 3,906 | 4,052 |
| | Contribution to provident and other funds | | |
| | - Provident fund | 187 | 190 |
| | - Superannuation scheme | 7 | 9 |
| | Staff welfare expenses | 138 | 195 |
| | | **4,238** | **4,446** |
| **20** | **Finance costs** | | |
| | Interest expense | 127 | 87 |
| | | 127 | 87 |

## Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **21** | **Other expenses** | | |
| | Laboratory consumables | 2,855 | 3,200 |
| | Power and fuel | 504 | 443 |
| | Rent | 155 | 180 |
| | Repairs and maintenance | | |
| | Buildings | 71 | 163 |
| | Plant and machiney | 263 | 348 |
| | Others | 263 | 268 |
| | Traveling and conveyance | 297 | 283 |
| | Legal and professional charges | 241 | 213 |
| | Business development | 155 | 113 |
| | Communication | 34 | 45 |
| | Membership and subscription | 63 | 53 |
| | Rates and taxes | 32 | 10 |
| | Insurance | 34 | 40 |
| | Bank charges | 19 | 21 |
| | Handling charges | 69 | 66 |
| | Software expenses | 124 | 118 |
| | Recruitment charges | 7 | 9 |
| | Security charges | 44 | 37 |
| | Safety and environmental charges | 54 | 58 |
| | Printing and stationery | 13 | 17 |
| | Foreign exchange loss, (net) | 47 | 597 |
| | Miscellaneous expenses | 1 | 1 |
| | | **5,345** | **6,283** |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**22. Notes to the financial statements**

a) **Commitments and contingent liabilities**

(i) Estimated amount of contracts remaining to be executed on capital account and not provided for as at 31 March 2013 was ₹ 311 lakhs (Previous year: ₹ 24 lakhs).

(ii) The Bangalore Unit of the Company is registered as a 100% export oriented unit ("EOU"), and is exempted from customs and central excise duties and levies on imported and indigenous capital goods and stores and spares. The Company has executed legal undertakings to pay Customs duty, Central Excise duty, levies and liquidated damages payable, if any, in respect of imported and indigenous capital goods and stores and spares consumed duty free, in the event that certain terms and conditions are not fulfilled. As on 31 March 2013, the Company has a positive Net Foreign Exchange Earning, as defined in the Foreign Trade Policy 2009-2014.

b) **Details of imported and indigenous lab consumables and spare parts consumed**

| **Particulars** | **For the year ended 31 March 2013** | | **For the year ended 31 March 2012** | |
|---|---|---|---|---|
| | Value | % of total consumption | Value | % of total consumption |
| **Lab consumables (excluding job work)** | | | | |
| Imported | 894 | 31% | 981 | 31% |
| Indigenous | 1,961 | 69% | 2,219 | 69% |
| **Total** | **2,855** | **100%** | **3,200** | **100%** |
| **Spare parts (included in repairs and maintenance)** | | | | |
| Imported | 179 | 63% | 21 | 13% |
| Indigenous | 107 | 37% | 139 | 87% |
| **Total** | **286** | **100%** | **160** | **100%** |

c) **CIF value of imports**

| **Particulars** | **Year ended 31 March 2013** | **Year ended 31 March 2012** |
|---|---|---|
| Laboratory consumables | 894 | 981 |
| Capital goods | 116 | 487 |
| Spare parts | 179 | 21 |
| **Total** | **1,189** | **1,489** |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|---|
| d) | **Expenditure in foreign currency** | | |
| | Travelling and conveyance | 55 | 62 |
| | Legal and professional charges | 15 | 79 |
| | Others | 173 | 185 |
| | **Total** | **243** | **326** |
| e) | **Earnings in foreign currency** | | |
| | Income from operations | 14,970 | 15,643 |
| f) | **Auditors' remuneration** | | |
| | Statutory audit | 7 | 7 |
| | Out of pocket expenses | - | - |
| | **Total** | **7** | **7** |

* Excludes applicable service tax.

g) Disclosure in respect of employee benefits under Accounting Standard (AS) – 15 (Revised) "Employee Benefits" prescribed by the Companies (Accounting Standards) Rules, 2006.

**Gratuity plan**

The following table sets out the status of the gratuity plan as required under Accounting Standard (AS) 15 – "Employee benefits".

**Reconciliation of the defined benefit obligations**

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| **Change in defined benefit obligation** | | |
| Opening defined benefit obligation | 278 | 252 |
| Current service cost | 52 | 56 |
| Interest cost | 26 | 24 |
| Actuarial losses / (gain) | 48 | (20) |
| Benefits paid | (24) | (34) |
| **Present value of defined benefit obligation** | **380** | **278** |
| Fair value of plan assets | 365 | **-** |
| **Closing value of defined benefit obligation** | **15** | **278** |
| **Change in the fair value of assets** | | |
| Opening fair value of plan assets | - | - |
| Contributions by employer | 380 | - |
| Benefits paid | (24) | - |
| Expected return on plan assets | 9 | - |
| **Closing fair value of plan assets** | **365** | **-** |

## Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| **Gratuity cost for the year** | | |
| Current service cost | 52 | 56 |
| Interest on defined benefit obligation | 26 | 24 |
| Net actuarial losses / (gains) recognized in year | 48 | (20) |
| Expected return on plan assets | (9) | - |
| **Total, included in "Salaries and wages"** | **117** | **60** |
| **Gratuity break-up** | | |
| Non current portion | - | 239 |
| Current portion | 15 | 39 |
| **Total** | **15** | **278** |
| **Assumptions at the valuation date** | | |
| Discount rate | 7.95% | 8.6% |
| Salary escalation rate | 10% for first 2 years and 9% thereafter | 8% |
| Average attrition rate | 14.97% | 14.89% |

**Salary escalation rate**

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors such as supply and demand factors in the employment market.

**Discount rate**

The discount rate is based on the prevailing market yields of Indian Government securities as at the Balance Sheet date for the estimated term of the obligations.

**Average attrition rate**

The attrition rate is computed on the average of current year and previous year attrition rate of employees resigning at various age groups.

**Experience adjustments**

| Particulars | Year ended | | | | |
|---|---|---|---|---|---|
| | 31 March 2013 | 31 March 2012 | 31 March 2011 | 31 March 2010 | 31 March 2009 |
| Defined benefit obligation | 380 | 278 | 252 | 212 | 60 |
| Plan assets | 365 | - | - | - | - |
| Surplus / (deficit) | (15) | (278) | (252) | (212) | (60) |
| Experience adjustment on plan liabilities | 5 | (2) | 2 | 18 | 3 |
| Experience adjustment on plan assets | - | - | - | - | - |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**Long term incentives**

Long term incentive is a rewarding plan for motivating employees who have been loyal to the Company and contributed to the growth of the Company. It is a defined benefit plan and is accrued based on actuarial valuation at each balance sheet date, carried out by an independent actuary. Given below are the key assumptions and the actuarial liability accounted in the books:

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| Discount rate % | 7.95% p.a. | 8.6% p.a. |
| Increase in incentive amount % | 0.00% | 0.00% |
| Long term incentive liability ₹ in lakhs | - | 209 |
| Non current portion ₹ in lakhs | - | - |
| Current portion ₹ in lakhs | - | 209 |

h) **Operating leases**

The Company has certain premises under cancelable operating lease agreements. The total rental expense under cancelable operating leases is ₹ 155 Lakhs (Previous year: ₹ 180 Lakhs).

i) **Deferred taxes**

Components of deferred tax assets and liabilities and are:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax asset** | | |
| Provision for gratuity | - | 91 |
| Provision for long term incentives | - | 68 |
| Fixed assets | 64 | 63 |
| Others | 2 | 32 |
| **Deferred tax asset/ (liability), net** | **66** | **254** |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

j) **Earnings per share (EPS)**

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| **Calculation of weighted average number of equity shares of ₹ 10 each** | | |
| Number of shares at the beginning of the year | 90,544,104 | 90,544,104 |
| Total number of equity shares outstanding at the end of the year | 90,544,104 | 90,544,104 |
| Weighted average number of equity shares outstanding during the year – Basic | 90,544,104 | 90,544,104 |
| Net profit after tax | 3,721 | 3,259 |
| Less: Preference dividend (including dividend distribution tax thereon) | 138 | 137 |
| Net profit after tax attributable to equity share holders | 3,583 | 3,122 |
| Basic earnings per share (₹) | 3.96 | 3.45 |
| Number of potentially dilutive shares under options | - | - |
| Weighted average number of equity shares outstanding during the year – Diluted | 90,544,104 | 90,544,104 |
| Diluted earnings per share (₹) | 3.96 | 3.45 |

k) **Segment reporting**

The Company undertakes research relating to drug discovery for its customers primarily based outside India. The entire business is reviewed by management as one since it has only one business and customers across the world do not have differing risks and rewards. All of its assets, except for receivables are in India (including all fixed assets). Accordingly, the Company has only one reportable business and geographical segment. Hence, in accordance with Para 25 of Accounting Standard 17: Segment Reporting the Company has not made any separate segmental disclosures.

l) **Related party disclosures**

i. Parties where control exists;
- Aurigene Discovery Technologies Inc., U.S.A - subsidiary company
- Aurigene Discovery Technnologies (M) Sdn Bhd, Malaysia - subsidiary company
- Dr. Reddy's Laboratories Ltd., Hyderabad -ultimate holding company

ii. Other related parties with whom transactions have taken place during the year:
- CJK Biomedical LLC
- Konticon APS, an entity in which a director is interested

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

iii. Particulars of related party transactions

The following is a summary of significant related party transactions:

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| **Repayment of loan** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | - | 89 |
| **Advances to** | | |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | - | 36 |
| Aurigene Discovery Technologies Inc., U.S.A - subsidiary company | 146 | - |
| **Advances repayment by** | | |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | 269 | 238 |
| **Revenue from operations** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 978 | 1,020 |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | 2,808 | 1150 |
| **Fixed assets purchased** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | - | 30 |
| **Fixed assets sold** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 9 | 48 |
| **Lab consumables** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 1 | 71 |
| **Power and fuel** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 281 | 224 |
| **Lease rent paid** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 150 | 167 |
| **Repairs and maintenance** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 41 | 36 |
| **Membership and subscription** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 35 | 42 |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Year ended 31 March 2013 | Year ended 31 March 2012 |
|---|---|---|
| **Other expenses** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 10 | 30 |
| **Expenses re-charged** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 11 | 30 |
| **Business promotion expense** | | |
| Creative Business Sarl | - | 35 |
| CJK Biomedical LLC | 36 | - |
| **Professional fee** | | |
| Konticon APS | 6 | 39 |
| **Remuneration to key management personnel** | | |
| Mr. C S N Murthy, Whole time Director* | - | 8 |

* Till 02 May 2011.

iv. The following amounts are due from/to related parties:

| | | |
|---|---|---|
| **Due to related parties** **(included in current liabilities)** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 67 | 410 |
| **Due from related parties** **(included in trade receivables)** | | |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 194 | 63 |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | 890 | 260 |
| **Due from related parties** **(included in loans and advances)** | | |
| Aurigene Discovery Technologies Inc., U.S.A – Subsidiary Company, [ refer note (n) below] | 1,580 | 1,434 |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | 86 | 355 |
| Dr. Reddy Laboratories Limited – Ultimate Holding Company | 12 | 58 |
| **Investments** | | |
| Aurigene Discovery Technologies Inc., U.S.A. – Subsidiary Company | 2,083 | 2,083 |
| Aurigene Discovery Technologies (M) Sdn Bhd, Malaysia – Subsidiary Company | 156 | 156 |
| **Provision for doubtful advances** | | |
| Aurigene Discovery Technologies Inc., U.S.A. – Subsidiary Company, [ Refer note (n) below] | 1,434 | 1,434 |
| **Provision for permanent diminution in value of investment** | | |
| Aurigene Discovery Technologies Inc., U.S.A. – Subsidiary Company | 2,083 | 2,083 |

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

m) **Employee stock option plan (ESOP)**

**ESOP 2003 (hereinafter referred to as "the plan")**

The ESOP scheme of the Company was approved by the shareholders at the Extra-ordinary general meeting held on 30 January 2003 and originally the scheme was intended to remain in force till 31 July 2012. However, during the year ending 31 March 2012, due to liquidity issues, the employees of the Company surrendered their stock options under the above scheme. These options were granted on various dates between 1 April 2004 to 2 January 2008 and subsequently vested between 31 March 2007 to 31 January 2011.

During the year ended 31 March 2012, the Company cancelled 1,009,090 stock options which were fully vested and outstanding under the plan, upon surrender by the employees. Accordingly, no stock options were outstanding under the plan as at 31 March 2013.

| | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| Stock options at the beginning | - | 1,009,090 |
| Forfeited due to resignation of employees | - | - |
| Cancelled during the year | - | 1,009,090 |
| Stock options outstanding at the end | - | - |
| Exercisable at the end of the year | - | - |

n) **Amounts invested in /Recoverable from Aurigene Discovery Technologies Inc. U.S.A.**

The Company has a wholly owned subsidiary - Aurigene Discovery Technologies Inc. in USA. Considering the financial position and recurring losses incurred by the subsidiary, the Company has assessed its investment in subsidiary for other than temporary diminution in the value. Accordingly, the Company had provided for its entire investment in its subsidiary towards diminution, being other than temporary.

The Company has advanced money in the form of share application money amounting to USD 0.67 million (equivalent to ₹ 311 lakhs) to Aurigene Discovery Technologies Inc against which no shares have been allotted till date. Considering the financial position of the subsidiary and based on the evaluation of the recoverability of such advance, the Company has provided for ₹ 311 lakhs of share application money.

In 2004, Dr. Reddy's Laboratories Limited (DRL), the ultimate holding company had advanced, on behalf of the Company, an amount of USD 2.5 million (equivalent to ₹ 1,123 lakhs) to Aurigene Discovery Technologies Inc., the wholly owned subsidiary of the Company. Based on the evaluation of recoverability of the advance, the Company had provided for the entire amount of advances.

The Company is in the process of also reviving the operations of Aurigene Discovery Technologies Inc and has remitted USD 275,000 (equivalent to ₹ 146 lakhs) during the year to meet the operating expenses which is based on its operating plan, it believes is recoverable in future year.

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

o) **Micro, Small and Medium Enterprises**

The management has a process of identifying enterprises which have provided goods and services to the Company and which qualify under the definition of micro and small enterprises, as defined under Micro, Small and Medium Enterprises Development Act, 2006. Further, The Ministry of Micro, Small and Medium Enterprises has issued an Office Memorandum dated 26 August 2008 which recommends that the Micro and Small Enterprises should mention in their correspondence with its customers the Entrepreneurs Memorandum Number as allotted after filing of the Memorandum. Accordingly, the disclosure in respect of the amounts payable to such enterprises as at 31 March 2013 has been made in the financial statements based on information received and available with the Company. Further in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the said Act is not expected to be material. The Company has not received any claim for interest from any supplier under the said Act.

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year; | Nil | Nil |
| The amount of interest paid by the Company along with the amounts of the payment made to the supplier beyond the appointed day during the year; | Nil | Nil |
| The amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act; | Nil | Nil |
| The amount of interest accrued and remaining unpaid at the end of the year; | Nil | Nil |
| The amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise. | Nil | Nil |

p) **Derivatives**

The Company has taken hedging instruments to hedge the foreign currency exposure on account of receivables denominated in USD. The open forward covers as of 31 March 2013 is USD Nil (previous year: 10,050,000).

The table below summarizes the periods when the forecasted cash flows associated with hedging Instruments are expected to occur:

**Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| In US Dollars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Not later than one month | - | 1,000,000 |
| Later than one month and not later than three months | - | 2,750,000 |
| Later than three months and not later than six months | - | 3,300,000 |
| Later than six months and not later than one year | - | 3,000,000 |
| **Total** | **-** | **10,050,000** |

q) **Un-hedged significant foreign currency exposure**

The year-end significant foreign currency exposures that have not been hedged by a derivative instrument or otherwise are given below:

| Particulars | Currency | Year ended 31 March 2013 Foreign currency | Year ended 31 March 2013 ₹ In lakhs | Year ended 31 March 2012 Foreign currency | Year ended 31 March 2012 ₹ In lakhs |
|---|---|---|---|---|---|
| Trade receivable | USD | 3,194,009 | 1,786 | 4,794,073 | 2,439 |
| | Euro | 75,705 | | 34,526 | |
| Advance from customers | USD | 785,212 | 373 | 1,940,620 | 988 |
| Advances to suppliers/ capital advances | USD | 158,106 | 85 | 13,841 | 8 |
| Trade payable | USD | 125,319 | 123 | 97,540 | 99 |
| | GBP | 33,070 | | 2,390 | |
| | CAD | - | | 2,966 | |
| | Euro | 43,237 | | 67,647 | |

r) The Company has developed a comprehensive system of maintenance of information and documents as required by the transfer pricing legislation under sections 92-92F of the Income Tax Act, 1961, which require existence of these records. The Management is of the opinion that its international transactions are at arm's length so that the aforesaid legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

As per our report of even date attached
*for* **B.S.R & Co.**
*Chartered Accountants*
Firm registration no. 101248W

**Zubin Shekary**
*Partner*
Membership No. 048814

Place : Bangalore
Date : 26 April 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Ashish Lath**
Director - Finance & Manager

## Statement pursuant to Section 212 of the Companies Act, 1956

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Name of the Subsidiary | The Financial Year of the subsidiary company ended on | Number of shares in the subsidiary company held by Aurigene Discovery Technologies Ltd. at the above date | | | | The net Aggregate of profits (losses) of the subsidiary company for it's financial year so far as they concern the members of Aurigene Discovery Technologies Ltd. | | The net Aggregate of profits (losses) of the subsidiary company for it's previous financial years so far as they concern the members of Aurigene Discovery Technologies Ltd. | | Changes in the interest of Aurigene Discovery Technologies Ltd., between the end of the last financial year and 31 March 2013 | Material changes between the end of the last financial year and 31 March 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Equity Shares | Preference Shares | Equity Holding % | Preference Holding % | a) Dealt with in the account of Aurigene Discovery Technologies Ltd. for the year ended 31.03.2013 | b) Not dealt with in the account of Aurigene Discovery Technologies Ltd. for the year ended 31.03.2013 | a) Dealt with in the account of Aurigene Discovery Technologies Ltd. for the year ended 31.03.2012 | b) Not dealt with in the account of Aurigene Discovery Technologies Ltd. for the year ended 31.03.2012 | | |
| Aurigene Discovery Technologies Inc. | 31.03.2013 | 4,400,000 | - | 100 | - | Nil | (9,634) | Nil | (278,020) | Nil | Nil |
| Aurigene Discovery Technologies (Malaysia) Sdn Bhd | 31.03.2013 | 100,000 | - | 100 | - | Nil | 15,779 | Nil | (27,941) | Nil | Nil |

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (932) | (1) |
| Balance brought forward | - | 1 |
| Balance carried forward to Balance Sheet | (932) | - |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**Michael Ewers**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **beta Institut gemeinnützige GmbH**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 5,401 | 5,401 |
| Reserves and surplus | 2.2 | 623 | 1,386 |
| | | **6,024** | **6,787** |
| **Non current liabilities** | | | |
| Other long term liabilities | 2.3 | 8,687 | - |
| | | **8,687** | **-** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 192 | 1,549 |
| Other current liabilities | 2.3 | 639 | 2,359 |
| | | **831** | **3,908** |
| | **TOTAL** | **15,542** | **10,695** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.5 | 297 | 1,196 |
| Intangible assets | 2.5 | - | 1,085 |
| Long term loans and advances | 2.6 | - | 1,349 |
| | | **297** | **3,630** |
| **Current assets** | | | |
| Trade receivables | 2.7 | - | 78 |
| Cash and bank balances | 2.8 | 15,175 | 6,987 |
| Short term loans and advances | 2.9 | 14 | - |
| Other current assets | 2.10 | 56 | - |
| | | **15,245** | **7,065** |
| | **TOTAL** | **15,542** | **10,695** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 19,610 | 34,423 |
| **Revenue from operations** | | **19,610** | **34,423** |
| Other income | 2.11 | 72 | 66 |
| **Total revenue** | | **19,682** | **34,489** |
| **Expenses** | | | |
| Employee benefits expense | 2.12 | 10,553 | 17,274 |
| Finance costs | 2.13 | - | 88 |
| Depreciation and amortization expense | 2.5 | 1,160 | 1,874 |
| Other expenses | 2.14 | 8,901 | 15,254 |
| **Total expenses** | | **20,614** | **34,490** |
| **Profit / (Loss) before tax** | | **(932)** | **(1)** |
| Tax expense | 2.16 | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(932)** | **(1)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | Years |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Intangibles | 6 to 10 |

**f) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**g) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**h) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

## Note 2 : Notes to Financial Statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Euro 100,000 (previous year 100,000)* | 5,401 | 5,401 |
| **Issued** | | |
| Euro 100,000 (previous year 100,000)* | 5,401 | 5,401 |
| **Subscribed and paid-up** | | |
| Euro 100,000 (previous year 100,000)* | 5,401 | 5,401 |
| | **5,401** | **5,401** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 1,386 | 937 |
| Additions / (deductions) during the year | 169 | 449 |
| | 1,555 | 1,386 |
| ***Deficit*** | | |
| Balance at the beginning of the year | - | 1 |
| Add: Current year loss | (932) | (1) |
| Balance carried forward | (932) | - |
| | **623** | **1,386** |
| **2.3 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 8,687 | - |
| | **8,687** | **-** |
| **b) Other current liabilities** | | |
| Other current liabilities | 639 | 2,359 |
| | **639** | **2,359** |
| **2.4 : Trade Payables** | | |
| Payables to others | 192 | 1,549 |
| | **192** | **1,549** |

## Note 2 : Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Furniture and Fixtures | 9,369 | - | 457 | 416 | 9,328 | 8,577 | 105 | 37 | 386 | 9,031 | 297 | 792 |
| Computers | 9,414 | - | 395 | 288 | 9,307 | 9,010 | 111 | 55 | 241 | 9,307 | - | 404 |
| **Total Tangible Assets (A)** | **18,783** | **-** | **852** | **704** | **18,635** | **17,587** | **216** | **92** | **627** | **18,338** | **297** | **1,196** |
| Patents and Trademarks | 5,469 | - | 195 | 258 | 5,532 | 4,384 | 944 | 38 | 242 | 5,532 | - | 1,085 |
| **Total Intangible Assets (B)** | **5,469** | **-** | **195** | **258** | **5,532** | **4,384** | **944** | **38** | **242** | **5,532** | **-** | **1,085** |
| **TOTAL (A+B)** | **24,252** | **-** | **1,047** | **962** | **24,167** | **21,971** | **1,160** | **130** | **869** | **23,870** | **297** | **2,281** |
| Previous year | 27,910 | - | 4,858 | 1,200 | 24,252 | 23,208 | 1,874 | 3,548 | 437 | 21,971 | 2,281 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | - | 1,349 |
| | **-** | **1,349** |
| **2.7 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | - | 78 |
| | - | 78 |
| *Less*: Provision for doubtful debts | - | - |
| | **-** | **78** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 15,175 | 6,987 |
| | **15,175** | **6,987** |
| **2.9 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 14 | - |
| | **14** | **-** |
| **2.10 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 56 | - |
| | **56** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.11 : Other income** | | |
| Interest income | 72 | 66 |
| | **72** | **66** |
| **2.12 : Employee benefits expense** | | |
| Salaries, wages and bonus | 8,792 | 13,702 |
| Contribution to provident and other funds | 1,697 | 3,149 |
| Staff welfare expenses | 64 | 423 |
| | **10,553** | **17,274** |
| **2.13 : Finance costs** | | |
| Interest Expenses | - | 88 |
| | **-** | **88** |
| **2.14 : Other expense** | | |
| Legal and professional | 403 | 3,188 |
| Rates and taxes | 56 | 217 |
| Other selling expenses | 8 | 236 |
| Travelling and conveyance | - | 68 |
| Communication | 341 | 457 |
| Rent | - | 26 |
| Printing and stationery | 27 | 86 |
| Bank charges | 120 | 16 |
| Loss on sale of fixed assets, net | 894 | 125 |
| Advertisements | - | 449 |
| Miscellaneous | 7,052 | 10,386 |
| | **8,901** | **15,254** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.15: Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.16:** Tax expense for the company is computed and presented together with the parent company's (Reddy Holding GmbH) financial as per the tax laws of Germany.

**2.17: Comparative figures**

Previous year’s figures have been regrouped/ reclassified wherever necessary, to conform to current year’s classification.

**2.18:** The Company, incorporated in Germany, is a 100% subsidiary of Reddy Holding GmbH.

As per our report of even date attached
*f*or **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

## DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (11,235) | (20,382) |
| Balance brought forward | (21,595) | (1,213) |
| Balance carried forward to Balance Sheet | (32,830) | (21,595) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Michael Ewers** | **Abhijit Mukherjee** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **betapharm Arzneimittel GmbH**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 598 | 598 |
| Reserves and surplus | 2.2 | 9,769 | (16,219) |
| | | **10,367** | **(15,621)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 13,520 | 2,597 |
| | | **13,520** | **2,597** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 23,100 | 11,338 |
| Other current liabilities | 2.5 | 31,433 | 45,288 |
| Short term provisions | 2.6 | 935 | 1,238 |
| | | **55,468** | **57,864** |
| | **TOTAL** | **79,355** | **44,840** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 2,804 | 2,908 |
| Intangible assets | 2.7 | 1,434 | 5,885 |
| Capital work-in-progress | | 79 | - |
| Long term loans and advances | 2.8 | 39,464 | 1,246 |
| | | **43,781** | **10,039** |
| **Current assets** | | | |
| Inventories | 2.9 | 8,338 | 12,031 |
| Trade receivables | 2.10 | 9,834 | 6,827 |
| Cash and bank balances | 2.11 | 11,301 | 15,389 |
| Short term loans and advances | 2.12 | 1,638 | 194 |
| Other current assets | 2.13 | 4,463 | 360 |
| | | **35,574** | **34,801** |
| | **TOTAL** | **79,355** | **44,840** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 54,342 | 51,849 |
| License fees | | 2,521 | - |
| Other operating revenues | | - | 1,955 |
| **Revenue from operations** | | **56,863** | **53,804** |
| Other income | 2.14 | 7 | 2,165 |
| **Total revenue** | | **56,870** | **55,969** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 38,073 | 44,165 |
| Conversion charges | | 279 | 342 |
| Employee benefits expense | 2.15 | 5,924 | 5,486 |
| Finance costs | 2.16 | 1,175 | 376 |
| Depreciation and amortization expense | 2.7 | 4,957 | 2,956 |
| Other expenses | 2.17 | 17,168 | 10,142 |
| Impairment of intangibles | 2.7 | - | 12,884 |
| **Total expenses** | | **67,576** | **76,351** |
| **Profit before tax** | | **(10,706)** | **(20,382)** |
| Tax expense | 2.20 | | |
| Current tax | | (2) | - |
| Deferred tax | | 531 | - |
| **Profit for the year** | | **(11,235)** | **(20,382)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | Years |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

Tenants improvements is being amortised over the primary period of the lease.

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 3 to 16 |

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable to employee pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Leases**

The lease arrangement is classified as either a finance lease or an operating lease, at the inception of the lease, based on the substance of the lease arrangement.

*Finance leases*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Operating leases*

Other leases are operating leases, and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in the statement of profit and loss on a straight-line basis over the term of the lease.

**k) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**l) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

*Onerous contracts*

A contract is considered as onerous when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision for an onerous contract is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

*Contingencies*

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Euro 1,022,584 (previous year 1,022,584)* | 598 | 598 |
| **Issued** | | |
| Euro 1,022,584 (previous year 1,022,584)* | 598 | 598 |
| **Subscribed and paid-up** | | |
| Euro 1,022,584 (previous year 1,022,584)* | 598 | 598 |
| | **598** | **552** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (68,480) | (44,407) |
| Additions / (deductions) during the year | 37,223 | (24,073) |
| | (31,257) | (68,480) |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 73,856 | 73,856 |
| Additions / (deductions) during the year | - | - |
| | 73,856 | 73,856 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (21,595) | (1,213) |
| Add: Current year loss | (11,235) | (20,382) |
| Balance carried forward | (32,830) | (21,595) |
| | **9,769** | **(16,219)** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.3 : Long term borrowings** | | |
| Long term maturities of finance lease obligations | 2,616 | 2,597 |
| Borrowings from holding company and other group companies | 10,904 | - |
| | **13,520** | **2,597** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 10,050 | 5,684 |
| Payables to others | 13,050 | 5,654 |
| | **23,100** | **11,338** |
| **2.5 : Other current liabilities** | | |
| Current maturities of finance lease obligations | 6 | - |
| Due to holding company and other group companies | 1,257 | - |
| Accrued expenses | 30,170 | 45,288 |
| | **31,433** | **45,288** |
| **2.6 : Short term provisions** | | |
| Allowance for sales returns | 935 | 1,238 |
| | **935** | **1,238** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation / Impairment | | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.12 | For the year | Impairment | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land | 940 | - | - | 23 | 963 | - | - | - | - | - | - | 963 | 940 |
| Buildings | 2,599 | - | - | 151 | 2,750 | 971 | 112 | - | - | 110 | 1,193 | 1,556 | 1,628 |
| Plant & Machinery | 479 | 23 | - | 59 | 561 | 459 | 54 | - | - | 20 | 533 | 28 | 20 |
| Furniture, Fixtures | 725 | - | - | 48 | 773 | 505 | 58 | - | - | 31 | 594 | 179 | 220 |
| Computers | 637 | 106 | 167 | 43 | 619 | 537 | 62 | - | 92 | 33 | 540 | 78 | 100 |
| Vehicles | 4 | - | - | - | 4 | 4 | - | - | - | - | 4 | - | - |
| **Total Tangible Assets (A)** | **5,384** | **129** | **167** | **324** | **5,670** | **2,476** | **286** | **-** | **92** | **195** | **2,864** | **2,804** | **2,908** |
| Patents, Trademarks | 95,615 | 230 | - | 2,522 | 98,137 | 89,730 | 4,671 | - | - | 2,302 | 96,703 | 1,434 | 5,885 |
| **Total Intangible Assets (B)** | **95,615** | **230** | **-** | **2,522** | **98,137** | **89,730** | **4,671** | **-** | **-** | **2,302** | **96,703** | **1,434** | **5,885** |
| **TOTAL (A+B)** | **101,000** | **359** | **167** | **2,846** | **103,807** | **92,206** | **4,957** | **-** | **92** | **2,497** | **99,567** | **4,238** | **8,793** |
| Previous year | 94,352 | 334 | 377 | 6,691 | 101,000 | 69,996 | 2,956 | 12,884 | 193 | 6,563 | 92,206 | 8,793 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 39,283 | - |
| Security Deposits | 181 | 1,246 |
| | **39,464** | **1,246** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 6 | 30 |
| Work-in-progress | 131 | 11 |
| Stock-in-trade (in respect of goods acquired for trading) | 8,201 | 11,989 |
| Packing materials | - | 1 |
| | **8,338** | **12,031** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | - | - |
| Considered doubtful | 43 | 2 |
| Other debts | | |
| Considered good | 8,121 | 6,827 |
| Receivables from holding company and other group companies | 1,713 | - |
| | 9,877 | 6,829 |
| *Less*: Provision for doubtful debts | (43) | (2) |
| | **9,834** | **6,827** |
| **2.11 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 11,301 | 15,389 |
| | **11,301** | **15,389** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.12 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Staff loans and advances | 1 | - |
| Prepaid expenses | 1,637 | 194 |
| | **1,638** | **194** |
| **2.13 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 2,188 | - |
| Other current assets | 2,275 | 360 |
| | **4,463** | **360** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.14 : Other income** | | |
| Interest income | 7 | 2,165 |
| | **7** | **2,165** |
| **2.15 : Employee benefits expense** | | |
| Salaries, wages and bonus | 5,524 | 4,885 |
| Contribution to provident and other funds | 400 | 404 |
| Staff welfare expenses | - | 197 |
| | **5,924** | **5,486** |
| **2.16 : Finance costs** | | |
| Interest Expenses | 1,175 | 376 |
| | **1,175** | **376** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.17 : Other expense** | | |
| Consumption of Stores and spare parts | - | 25 |
| Legal and professional | 198 | 482 |
| Carriage outward | 1,351 | 1,452 |
| Rates and taxes | 1,020 | 1,465 |
| Other selling expenses | 533 | 604 |
| Travelling and conveyance | 52 | 52 |
| Communication | 32 | 35 |
| Rent | 5 | 241 |
| Insurance | 209 | 218 |
| Foreign exchange loss, net | - | 5 |
| Provision - Advances & Debtors | 35 | - |
| Printing and stationery | 10 | 11 |
| Bank charges | 14 | 16 |
| Loss on sale of fixed assets, net | 254 | 105 |
| Auditors' remuneration | | |
| Audit fees | 25 | 106 |
| Advertisements | 1,189 | 1,254 |
| Miscellaneous | 12,241 | 4,071 |
| | **17,168** | **10,142** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.18:** The company has taken buildings under finance lease. Future minimum lease payments under finance leases as at 31 March 2013 are as follows:

| Particulars | Present value of minimum lease Payments | Future interest | Minimum lease payments |
|---|---|---|---|
| Not later than 1 year | 89 | 1 | 90 |
| Later than 1 year and not later than 5 years | 443 | 2 | 445 |
| Beyond 5 years | 2,086 | 11 | 2,097 |
| **Total** | **2,618** | **14** | **2,631** |

The company has taken buildings under finance lease. Future minimum lease payments under finance leases as at 31 March 2012 are as follows:

| Particulars | Present value of minimum lease Payments | Future interest | Minimum lease payments |
|---|---|---|---|
| Not later than 1 year | 90 | - | 90 |
| Later than 1 year and not later than 5 years | 550 | 3 | 553 |
| Beyond 5 years | 1,962 | 11 | 1,972 |
| **Total** | **2,602** | **14** | **2,615** |

**2.19: Related party disclosures**

The Company has following amounts due from / to related parties:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| i. Due to related parties (included in Trade payables and other current liabilities): | | |
| Dr. Reddy’s Laboratories Limited | 11,307 | 5,684 |
| ii. Due from related parties (included in Trade receivables and other current assets): | | |
| Dr. Reddy’s Laboratories Inc. | 1,713 | - |
| Dr. Reddy’s Laboratories Limited | 103 | - |
| iii. Due from related parties (included in long term loans and advances): | | |
| Reddy Holding GmbH | 39,283 | - |
| iv. Due to related parties (included in long term borrowings): | | |
| Reddy Holding GmbH | 10,904 | - |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.20:** Tax expense for the Company is computed and presented together with the parent Company's (Reddy Holding GmbH) financial as per the tax laws of Germany.

**2.21: Comparative figures**

Previous year’s figures have been regrouped/ reclassified wherever necessary, to conform to current year’s classification.

**2.22:** The Company, incorporated in Germany, is a 100% Subsidiary of Reddy Holding GmbH.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 23rd Annual Report of the Company for the year ended 31 March 2013

**Financial Highlights**

(₹ in thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period | (18) | (11) |
| Balance Brought forward | (137) | (126) |
| Balance Carried forward to Balance Sheet | (155) | (137) |

**Operations**

The Company did not have any operation during the year.

**Dividend**

Your Directors do not recommend any dividend for the financial year ending 31 March 2013.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Directors Responsibility statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2012-13 and of net loss of the company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Directors**

Mr. G V Prasad, retires by rotation at the ensuing Annual General Meeting scheduled on 29 July 2013 and being eligible seeks re-appointment. Your Directors recommends his re-appointment for your approval at the ensuing AGM.

Mr. Umang Vohra resigned from the Board of Directors of the Company and ceases to be a Director of the Company with effect from 11 February 2013. The Board accorded its deep appreciation for the services rendered by him during his term.

The Board of Directors had appointed Mr. Saumen Chakraborty as an Additional Director on the Board of Directors of the Company on 11 February 2013. He will hold this office till the conclusion of the 23rd Annual General Meeting of the Company. Requisite notice under Section 257 of the Companies

Act, 1956 has been received from a member proposing his appointment. It is proposed to appoint him as a Director of the Company liable to retire by rotation. The resolution for the same has been included in the notice of the 23rd Annual General Meeting of the Company.

**Auditors**

The Statutory Auditors of the Company M/s. A. Ramachandra Rao & Co., Chartered Accountants, retire at the ensuing 23rd Annual General Meeting and have confirmed their eligibility and willingness to accept office of auditors, if re-appointed. The Board of Directors recommend re-appointment of M/s. A. Ramachandra Rao & Co., Chartered Accountants as Statutory Auditors of the Company for the financial year 2013-14 for shareholder's approval.

**Compliance Certificate**

Pursuant to the provisions of Section 383A of the Companies Act, 1956, a certificate issued by a Company Secretary in whole time practice with regard to compliance with the provisions of the Companies Act, 1956 is enclosed as Annexure – I.

**Particulars of Employees**

There are no employees who are drawing salary more than the amount as specified under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time. Hence the relevant provisions are not applicable to your Company.

**Conservation of energy, research and developments, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgements**

Your Directors place on record their sincere appreciation for support and co-operation extended by all the concerned to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **Saumen Chakraborty** |
| Date : 10 May 2013 | Director | Director |

# AUDITOR'S REPORT

To
**The Members of**
M/s. Cheminor Investments Limited
Hyderabad

We have audited the accompanying financial statements of **Cheminor Investments Ltd** which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

01. 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 India:

    a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

    b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

    c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

02. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

03. As required by section 227(3) of the Act, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books

c) the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

d) in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **A. Ramachandra Rao & Co.,**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

# ANNEXURE TO THE AUDITORS' REPORT

(Of even date referred to in Para (2) of our Report)

i. a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

b) All the Fixed Assets have not been physically verified by the management during the year but there is a regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets and to the best of our knowledge no material discrepancies were noticed on such verification;.

c) In our opinion, the Company has not disposed off substantial part of fixed assets during the year and the going concern status of the Company is not affected.

ii. The company does not have any inventories and hence, in our opinion ,clauses 4(ii)(a) to (c) are not applicable to the company.

iii. Based on the information and explanations provided to us, the company has not granted or taken any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained u/s 301 of the Act during the year. Accordingly the sub-clauses (b),(c),(d) of clause 4(iii) are not applicable for the year.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and also for the sale of goods and services . During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

v. In our opinion, and according to the information and explanations given to us, we are of the opinion that the company has not entered into any transactions that need to be entered into the register maintained under section 301 of the companies act 1956 and hence the Sub clause (v) is not applicable to the company for the year.

vi. Based on the information provided to us, in our opinion, the Company has not accepted any Deposits from the public during the year and hence, in our opinion, the Clause 4(vi) is not applicable to the company for the year;

vii. In our opinion, the company has an internal audit system to commensurate with its size and nature of its business.

viii. We are of the opinion, based on the information provided to us, that the Central Government has not prescribed any accounts and records, which are required to be maintained under section 209(1)(d) of the Act .

ix. (a) According to the records of the company, the company is regular in depositing the undisputed statutory dues including Sales tax, Income-tax, Customs duty, Excise duty and Employees State Insurance and Provident Fund and cess, investor education fund with the appropriate authorities. We have been informed that the provisions of Employees state Insurance, Wealth tax and excise duty are not applicable to the company.

(b) According to the information and explanations given to us, there are no dues of sales tax/income tax/ customs duty/Wealth tax /excise duty/cess to be deposited on account of any dispute;

(c) Further, since the Central Government has till date not prescribed the amount of cess payable under section 441A of the companies act 1956,we are not in a position to comment upon the regulatory or otherwise of the company in depositing the same.

x. In our opinion the accumulated losses of the company are not more than fifty percent of its net worth. The company has incurred cash losses during the financial year covered by our audit and immediately preceding the financial year.

xi. Based on the information provided and explanation given to us, the company has not taken any loans from banks and hence the clause 4(xi) is not applicable to the company for the year.

xii. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a Chit fund or Nidhi / Mutual Benefit Fund / Society and hence clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.

xiv. Based on the information given to us, the Company has not dealt or traded in shares, securities, debentures or other investments during the year.

xv. Based on the information provided to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.

xvi. According to the information and explanations given to us, the company has not obtained any term loans during the year and hence clause 4(xvi) of the order is not applicable to the company.

xvii. According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment;

xviii. Based on the information provided and explanations offered, during the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 and hence sub clause (xvii) of the order is not applicable to the company for the year.

xix. The Company has not issued any debentures and not created any securities or charges in respect of any debentures.

xx. The Company has not raised any money by way of Public Issue during the year.

xxi. In our opinion and according to the information provided and explanations offered to us, no fraud on or by the Company has been noticed or reported during the year.

For **A. Ramachandra Rao & Co.,**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' Funds** | | | |
| Share capital | 2.1 | 1,346 | 1,346 |
| Reserves and surplus | 2.2 | (155) | (137) |
| | | **1,190** | **1,209** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 31 | 20 |
| | | **31** | **20** |
| | **TOTAL** | **1,222** | **1,229** |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed assets | | | |
| Tangible Assets | 2.4 | 1,209 | 1,209 |
| | | **1,209** | **1,209** |
| **Current assets** | | | |
| Trade receivables | 2.5 | - | 7 |
| Cash and bank balances | 2.6 | 13 | 13 |
| | | **13** | **20** |
| | **TOTAL** | **1,222** | **1,229** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | - | - |
| | | - | - |
| **Expenses** | | | |
| Other expenses | 2.7 | 18 | 11 |
| **Total expenses** | | 18 | 11 |
| **Loss before exceptional and extraordinary items and tax** | | **(18)** | **(11)** |
| Exceptional items | | - | - |
| **Loss before extraordinary items and tax** | | **(18)** | **(11)** |
| Extraordinary Items | | - | - |
| **Loss before tax** | | **(18)** | **(11)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Loss for the year** | | **(18)** | **(11)** |
| **Earnings per share** | | | |
| Basic - Par value ₹ 10 per share | 2.8 | (0.137) | (0.082) |
| Diluted - Par value ₹ 10 per share | | (0.137) | (0.082) |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Cash Flow Statement

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the period | (18) | (11) |
| Add : Bad debts written off | 7 | - |
| Operating profit before working capital changes | (11) | (11) |
| Increase in Other Current Liabilities | 11 | 11 |
| **Cash generated from Operations** | - | - |
| Less: Income tax paid | - | - |
| **Net cash provided by operating activities** | - | - |
| **Cash flows From/(Used In) investing activities** | - | - |
| **Cash flows From/(Used In) financing activites** | - | - |
| **Net increase/(decrease) in cash & bank balances** | - | - |
| Cash & bank balances at the beginning of the year | 13 | 13 |
| **Cash & bank balances at the end of the year** | **13** | **13** |

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation**

The financial statements have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956. The financial statements are rounded off to the nearest thousands.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees Thousands, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Fixed assets, depreciation and amortisation**

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

Land is not depreciated. Depreciation on other fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the companies Act, 1956 or based on the useful life of the assets as estimated by Management whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

**d) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**e) Earnings per share**

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares).

**f) Provisions and contingent liabilities**

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

**g) Investments**

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Revenue recognition**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.

## Note 2: Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 150,000 (previous year 150,000) equity shares of ₹ 10/- each | 1,500 | 1,500 |
| 200 (previous year 200) 12% Cumulative Redeemable Preference shares of ₹ 100/- each | 20 | 20 |
| **Issued, Subscribed and paid- up** | | |
| 134,513 (previous year 134,513) Equity Shares of ₹10/- each | 1,345 | 1,345 |
| 8 (previous year 8) 12% Cumulative Redeemable Preference Shares of ₹ 100/- each | 1 | 1 |
| | **1,346** | **1,346** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

**Equity Shares**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | Amount | No. of shares | Amount |
| Number of shares at the beginning of the period | 134,513 | 1,345 | 134,513 | 1,345 |
| Issued during the period | - | - | - | - |
| **Outstanding at the end of the period** | 134,513 | 1,345 | 134,513 | 1,345 |

**Preference Shares**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | Amount | No. of shares | Amount |
| Number of shares at the beginning of the period | 8 | 1 | 8 | 1 |
| Issued during the period | - | - | - | - |
| **Outstanding at the end of the period** | **8** | **1** | **8** | **1** |

**(b) Terms/rights attached to shares**

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

The company has two class of shares consisting of equity shares having a par value of ₹ 10/- per share and 12% cumulative reedemable preference shares having a par value of ₹ 100/- per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | % holding in the class | No. of shares | % holding in the class |
| **Equity Shares -** | | | | |
| Dr Reddy's laboratories Ltd | 134,508 | 99.99 | 134,508 | 99.99 |
| **Preference Shares** | | | | |
| G V Prasad | 4 | 50 | 4 | 50 |
| K Anji Reddy | 2 | 25 | 2 | 25 |
| K Deepti Reddy | 2 | 25 | 2 | 25 |

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance in profit and loss account brought forward | (137) | (126) |
| Add: Transfer from General Reserve | - | - |
| | (137) | (126) |
| Add: Current Year Loss | (18) | (11) |
| | (155) | (137) |
| Balance Carried Forward | (155) | (137) |
| **2.3 : Other Current liabilities** | | |
| Payable to holding company | 7 | 7 |
| Outstanding Liabilities | 24 | 13 |
| | **31** | **20** |

## Note 2: Notes to financial statements (Continued)

### 2.4 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | Depreciation | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.0212 | Additions | Deletions | As at 31.03.2013 | As at 01.04.12 | For the year | Deletions | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| **Tangible Assets** | | | | | | | | | | |
| Land | 1,209 | - | - | 1,209 | - | - | - | - | 1,209 | 1,209 |
| **Total Tangible Assets** | **1,209** | **-** | **-** | **1,209** | **-** | **-** | **-** | **-** | **1,209** | **1,209** |
| Previous year | 1,209 | - | - | 1,209 | - | - | - | - | 1,209 | |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.5 : Trade Receivables** | | |
| **Unsecured** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | - | 7 |
| | - | 7 |
| *Less*: Provision for doubtful debts | - | - |
| | **-** | **7** |
| **2.6: Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 13 | 13 |
| | **13** | **13** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7 : Other expenses** | | |
| Auditors' remuneration | 11 | 11 |
| Bad debts Written Off | 7 | - |
| | **18** | **11** |
| **2.8 : Earnings per share** | | |
| Loss for the year | (18) | (11) |
| **Shares:** | | |
| Weighted average number of equity shares outstanding during the year - Basic | 134,513 | 134,513 |
| Weighted average number of equity shares outstanding during the year - Diluted | 134,513 | 134,513 |
| Basic Earnings / (Loss) in ₹ per share | (0.137) | (0.082) |
| Diluted Earnings / (Loss) in ₹ per share | (0.137) | (0.082) |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.9 : Comparitive Figures**

Previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year presentation.

**2.10: Related Party Transaction**

The company has the following amount due to related parties :

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Due to related parties (included in other current liabilities) | | |
| Dr Reddy's Laboratories Ltd | 7 | 7 |

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Loss for the period after taxation | (12,503) |
| Balance brought forward | (499,032) |
| Balance carried forward to Balance Sheet | (511,535) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**OctoPlus N.V.**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Chienna B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 1,405 |
| Reserves and surplus | 2.2 | (426,843) |
| | | **(425,438)** |
| **Current liabilities** | | |
| Short term borrowings | 2.3 | 5,147 |
| Trade payables | 2.4 | 2,319 |
| Other current liabilities | 2.5 | 763,061 |
| | | **770,527** |
| | **TOTAL** | **345,089** |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and bank balances | 2.6 | 18 |
| Short term loans and advances | 2.7 | 345,071 |
| | | **345,089** |
| | **TOTAL** | **345,089** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| **Total revenue** | | **-** |
| **Expenses** | | |
| Employee benefits expense | 2.8 | 8,682 |
| Finance costs | 2.9 | 3,248 |
| Other expenses | 2.10 | 573 |
| **Total expenses** | | **12,503** |
| **Profit before tax** | | **(12,503)** |
| Tax expense | 2.13 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit for the year** | | **(12,503)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**e) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 90,000 shares of Euro 1 each | 6,426 |
| **Issued** | |
| 19,680 shares of Euro 1 each | 1,405 |
| **Subscribed and paid-up** | |
| 19,680 shares of Euro 1 each | 1,405 |
| | **1,405** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 19,680 | 1,405 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 19,680 | 1,405 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| OctoPlus N.V. | 19,680 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | 148 |
| | 148 |
| ***Securities premium reserve*** | |
| Balance as at 15 February 2013 | 562,215 |
| Additions / (deductions) during the period | - |
| | 562,215 |
| ***General Reserve*** | |
| Balance as at 15 February 2013 | (477,671) |
| Additions / (deductions) during the period | - |
| | (477,671) |
| ***Deficit*** | |
| Balance as at 15 February 2013 | (499,032) |
| Add: Current period loss | (12,503) |
| Balance carried forward | (511,535) |
| | **(426,843)** |
| **2.3 : Short term borrowings** | |
| ***Secured*** | |
| Bank overdraft | 5,147 |
| | **5,147** |
| **2.4 : Trade Payables** | |
| Payable to others | 2,319 |
| | **2,319** |
| **2.5 : Other current liabilities** | |
| Due to holding company and other group companies | 756,700 |
| Accrued expenses | 6,361 |
| | **763,061** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.6 : Cash and bank balances** | |
| Cash on hand | - |
| Bank balances | |
| In current accounts | 18 |
| | **18** |
| **2.7 : Short term loans and advances (Unsecured)** | |
| ***Considered good*** | |
| Staff loans and advances | 39 |
| Balances with Statutory Agencies | 690 |
| Prepaid expenses | 1,371 |
| Advances to holding company and other group companies | 342,971 |
| | **345,071** |

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.8 : Employee benefits expense** | |
| Salaries, wages and bonus | 6,969 |
| Contribution to provident and other funds | 1,545 |
| Staff welfare expenses | 168 |
| | **8,682** |
| **2.9 : Finance costs** | |
| Interest Expenses | 3,248 |
| | **3,248** |
| **2.10 : Other expense** | |
| Legal and professional | 10 |
| Travelling and conveyance | 7 |
| Bank charges | 1 |
| Miscellaneous | 555 |
| | **573** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.11: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.12: Related Party Disclosures**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i) | Due to related parties (included in Other current liabilities): | |
| | OctoPlus Development B.V. | 345,008 |
| | OctoPlus N.V. | 411,692 |
| ii) | Due from related parties (included in Short term loans and advances): | |
| | OctoShare B.V. | 146,796 |
| | OctoPlus Technologies B.V. | 191,478 |
| | OctoPlus Sciences B.V. | 4,697 |

**2.13:** Tax expense for the company is computed and presented together with the parent company's (OctoPlus N.V.) financial as per the tax laws of Netherlands.

**2.14: Comparative Figures :**

The company is a 100% subsidiary of OctoPlus N.V.

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (125,352) | (169,906) |
| Balance brought forward | (1,214,196) | (1,044,290) |
| Balance carried forward to Balance Sheet | (1,339,548) | (1,214,196) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

**G.V. Prasad**
Director

# AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Chirotech Technology Limited**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far

as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 66,734 | 66,734 |
| Reserves and surplus | 2.2 | (652,554) | (526,477) |
| | | **(585,820)** | **(459,743)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 19 | 19 |
| Deferred tax liabilities, net | 2.18 | 2,854 | - |
| Other long term liabilities | 2.5 | 863 | - |
| | | **3,736** | **19** |
| **Current liablities** | | | |
| Trade payables | 2.4 | 875,064 | 700,751 |
| Other current liabilities | 2.5 | 270,622 | 257,533 |
| | | **1,145,686** | **958,284** |
| | **TOTAL** | **563,602** | **498,561** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 85,790 | 58,621 |
| Intangible assets | 2.6 | 1,423 | 1,879 |
| Capital work-in-progress | | 10,882 | 26,784 |
| Deferred tax assets, net | 2.18 | - | 6,991 |
| Long term loans and advances | 2.7 | 694 | 321 |
| | | **98,789** | **94,596** |
| **Current assets** | | | |
| Inventories | 2.8 | 10,631 | 9,996 |
| Trade receivables | 2.9 | 311,747 | 262,849 |
| Cash and bank balances | 2.10 | 30,432 | 45,260 |
| Short term loans and advances | 2.11 | 110,621 | 83,074 |
| Other current assets | 2.12 | 1,382 | 2,786 |
| | | **464,813** | **403,965** |
| | **TOTAL** | **563,602** | **498,561** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 747,765 | 733,871 |
| Service income | | 45,888 | 95,093 |
| Other operating revenues | | 21,665 | 1,290 |
| **Revenue from operations** | | **815,318** | **830,254** |
| Other income | 2.13 | - | 928 |
| **Total revenue** | | **815,318** | **831,182** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 515,936 | 563,793 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.14 | 1,803 | 219 |
| Conversion charges | | - | 11,173 |
| Employee benefits expense | 2.15 | 180,776 | 209,266 |
| Depreciation and amortization expense | 2.6 | 23,329 | 17,251 |
| Other expenses | 2.16 | 208,934 | 200,288 |
| **Total expenses** | | **930,778** | **1,001,990** |
| **Profit/ (Loss) before tax** | | **(115,460)** | **(170,808)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | 9,892 | (902) |
| **Profit/ (Loss) for the year** | | **(125,352)** | **(169,906)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹5,000 are depreciated in full in the year of acquisition.

Management’s estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 3 to 16 |

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable employee pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**k) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 108,298,978 (previous year 108,298,978) shares of 0.10 each in GBP | 67,055 | 67,055 |
| **Issued** | | |
| 107,780,577 (previous year 107,780,577) shares of 0.10 each in GBP | 66,734 | 66,734 |
| **Subscribed and paid-up** | | |
| 107,780,577 (previous year 107,780,577) shares of 0.10 each in GBP | 66,734 | 66,734 |
| | **66,734** | **66,734** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 107,780,577 | 66,734 | 107,780,577 | 66,734 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 107,780,577 | 66,734 | 107,780,577 | 66,734 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of GBP 0.10 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories (EU) Limited | 107,780,577 | 100 | 107,780,577 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (52,720) | (7,219) |
| Additions / (deductions) during the year | (725) | (45,501) |
| | (53,445) | (52,720) |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 740,439 | 740,439 |
| Additions / (deductions) during the year | - | - |
| | 740,439 | 740,439 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (1,214,196) | (1,044,290) |
| Add: Current year less | (125,352) | (169,906) |
| Balance carried forward | (1,339,548) | (1,214,196) |
| | **(652,554)** | **(526,477)** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 19 | 19 |
| | **19** | **19** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 852,075 | 686,398 |
| Payables to others | 22,989 | 14,353 |
| | **875,064** | **700,751** |
| **2.5 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 863 | - |
| | **863** | **-** |
| **b) Other current liabilities** | | |
| Due to capital creditors | 14,276 | 12,248 |
| Due to holding company and other group companies | - | 683 |
| Accrued expenses | 127,181 | 122,859 |
| Salary and Bonus payable | 49,112 | 34,099 |
| Due to statutory authorities | 13,091 | 11,101 |
| Sales and use tax payable | 23,004 | 21,029 |
| Other current liabilities | 43,958 | 55,514 |
| | **270,622** | **257,533** |

## Note 2 : Notes to financial statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Building | 14,936 | - | - | 141 | 15,077 | 2,571 | 4,204 | - | (149) | 6,626 | 8,451 | 12,365 |
| Plant & Machinery | 55,473 | 11,798 | - | (242) | 67,029 | 28,814 | 4,792 | - | 3 | 33,609 | 33,420 | 26,659 |
| Lab Equipment | 8,018 | 35,616 | - | (1,302) | 42,332 | 2,794 | 6,582 | - | (166) | 9,240 | 33,122 | 5,224 |
| Office equipment | 1,925 | 1,835 | - | 15 | 3,775 | 60 | 1,088 | - | 8 | 2,765 | 1,010 | 1,865 |
| Furniture and Fixtures | 15,214 | 1,422 | - | 204 | 16,840 | 4,315 | 4,508 | - | (161) | 8,662 | 8,178 | 10,899 |
| Computers | 8,548 | - | - | 30 | 8,578 | 6,939 | 1,659 | - | (20) | 6,939 | 1,609 | 1,609 |
| **Total Tangible Assets (A)** | **104,114** | **50,671** | **-** | **(1,156)** | **153,631** | **45,493** | **22,833** | **-** | **(485)** | **67,841** | **85,790** | **58,621** |
| Patents and Trademarks | 3,271 | - | - | 88 | 3,359 | 1,392 | 496 | - | 48 | 1,936 | 1,423 | 1,879 |
| **Total Intangible Assets (B)** | **3,271** | **-** | **-** | **88** | **3,359** | **1,392** | **496** | **-** | **48** | **1,936** | **1,423** | **1,879** |
| **TOTAL (A+B)** | **107,385** | **50,671** | **-** | **(1,068)** | **156,990** | **46,885** | **23,329** | **-** | **(436)** | **69,777** | **87,213** | **60,500** |
| Previous year | 59,921 | 74,652 | - | 9,988 | 107,385 | 23,380 | 17,251 | - | 7,334 | 46,885 | 60,500 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 694 | 321 |
| | **694** | **321** |
| **2.8 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 10,590 | 8,152 |
| Work-in-progress | 41 | - |
| Finished goods | - | 1,844 |
| | **10,631** | **9,996** |
| **2.9 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 213,376 | 138,642 |
| Receivables from holding company and other group companies | 98,371 | 124,207 |
| | 311,747 | 262,849 |
| *Less*: Provision for doubtful debts | - | - |
| | **311,747** | **262,849** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | 107 | 105 |
| Bank balances | | |
| In current accounts | 30,325 | 45,155 |
| | **30,432** | **45,260** |
| **2.11 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 21 | - |
| Staff loans and advances | 210 | 238 |
| Advance tax, net of provision for income taxes | 55,849 | 17,494 |
| Balances with Statutory Agencies | 48,630 | 37,397 |
| Prepaid expenses | 5,603 | 27,945 |
| Other Advances | 308 | - |
| | **110,621** | **83,074** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.12 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 1,382 | 2,786 |
| | **1,382** | **2,786** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.13 : Other income** | | |
| Interest income | - | 928 |
| | **-** | **928** |
| **2.14 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Finished goods | 1,844 | 2,062 |
| *Closing* | | |
| Work-in-process | 41 | - |
| Finished goods | - | 1,844 |
| *Net (increase)* | **1,803** | **219** |
| **2.15 : Employee benefits expense** | | |
| Salaries, wages and bonus | 170,444 | 202,089 |
| Staff welfare expenses | 10,332 | 7,177 |
| | **180,776** | **209,266** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.16 : Other expense** | | |
| Consumption of Stores and spare parts | 28,783 | 25,691 |
| Legal and professional | 13,710 | 13,976 |
| Carriage outward | 2,525 | 1,429 |
| Rates and taxes | 24,444 | 23,503 |
| Other selling expenses | 1,556 | 2,916 |
| Repairs and maintenance | | |
| Buildings | 1,207 | 1,444 |
| Plant and machinery | 9,273 | 10,354 |
| Others | 24,101 | 22,909 |
| Power and fuel | 15,990 | 13,820 |
| Travelling and conveyance | 14,030 | 11,431 |
| Communication | 5,089 | 3,288 |
| Rent | 61,651 | 53,035 |
| Insurance | 1,674 | 1,240 |
| Foreign exchange loss, net | 2,348 | 1,207 |
| Donations | 1 | 69 |
| Printing and stationery | 1,708 | 1,714 |
| Bank charges | 412 | 269 |
| Auditors' remuneration | | |
| Audit fees | 432 | 387 |
| Miscellaneous | - | 11,606 |
| | **208,934** | **200,288** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.17: Deferred taxation**

Deferred tax liability, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax Assets / (liabilities)** | | |
| Other current assets | 11,742 | 11,632 |
| Fixed assets | (14,596) | (4,641) |
| **Diferred tax Asset, Net** | **(2,854)** | **6,991** |

**2.18: Related Party Transactions :**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i) | Due from related parties (included in Trade Receivables): | | |
| | Dr. Reddy’s Laboratories Limited | 42,702 | 103,078 |
| | Dr. Reddy’s Laboratories (EU) Limited | 53,939 | 21,129 |
| | Dr. Reddy’s Laboratories Inc. | 1,730 | - |
| ii) | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy’s Laboratories Limited | 56,037 | 22,322 |
| | Dr. Reddy’s Laboratories (EU) Limited | 796,038 | 664,076 |
| iii) | Due to related parties (included in Borrowings and Other liabilities): | | |
| | Dr. Reddy’s Laboratories Limited | 19 | 702 |
| iv) | Due from related parties (included in Other Current Assets): | | |
| | Dr. Reddy’s Laboratories Limited | - | 2,778 |
| | Dr. Reddy’s Laboratories Inc. | 8 | 8 |
| | Dr. Reddy’s Laboratories SA | 1,374 | - |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.19 : Commitments and contingent liabilities**

There were no commitments / contingent liabilities as at 31 March 2013 (Previous year ₹ 1,286)

**2.20 : Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit/ (Loss) for the period after taxation | 72,521 | (24,763) |
| Balance brought forward | (1,037,924) | (1,013,161) |
| Balance carried forward to Balance Sheet | (965,404) | (1,037,924) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**VSS Seshagiri Rao Vempati**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Farmaceutica Do Brasil Ltda.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the Year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 633,545 | 633,545 |
| Reserves and surplus | 2.2 | (965,404) | (1,037,924) |
| | | **(331,859)** | **(404,379)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 262,596 | 232,358 |
| Other long term liabilities | 2.4 | 103,402 | 147,945 |
| | | **365,998** | **380,303** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 8,693 | 23,310 |
| Other current liabilities | 2.4 | 56,772 | 116,441 |
| Short term provisions | 2.6 | - | 36,278 |
| | | **65,465** | **176,029** |
| | **TOTAL** | **99,604** | **151,953** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 5,340 | 656 |
| Deferred tax assets, net | 2.20 | 50,904 | 85,650 |
| Long term loans and advances | 2.8 | 3,147 | 1,258 |
| | | **59,391** | **87,564** |
| **Current assets** | | | |
| Inventories | 2.9 | 846 | 841 |
| Trade receivables | 2.10 | 215 | 5,016 |
| Cash and bank balances | 2.11 | 11,507 | 30,936 |
| Short term loans and advances | 2.12 | 25,345 | 27,596 |
| Other current assets | 2.13 | 2,300 | - |
| | | **40,213** | **64,389** |
| | **TOTAL** | **99,604** | **151,953** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**VSS Seshagiri Rao Vempati**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 7,646 | 27,607 |
| License fees | | 92,809 | 78,130 |
| Other operating revenues | | 69,340 | 29,374 |
| **Revenue from operations** | | **169,795** | **135,110** |
| Other income | 2.14 | 376 | 2,026 |
| **Total revenue** | | **170,171** | **137,136** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 6,126 | 43,284 |
| Employee benefits expense | 2.15 | 31,938 | 33,200 |
| Finance costs | 2.16 | 14,725 | 13,427 |
| Depreciation and amortization expense | 2.7 | 7,368 | 4,200 |
| Other expenses | 2.17 | 19,720 | 62,482 |
| **Total expenses** | | **79,877** | **156,593** |
| **Profit / (Loss) before tax** | | **90,294** | **(19,457)** |
| Tax expense | | | |
| Current tax | | (14,181) | 5,129 |
| Deferred tax | | 31,954 | 178 |
| **Profit / (Loss) for the year** | | **72,521** | **(24,763)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**VSS Seshagiri Rao Vempati**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Plant and machinery | 3 to 15 |

**e) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**f) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**h) Revenue recognition**

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of the products are transferred to the customer. Revenue from export sales is recognised on shipment of products.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

*License fee*

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**i) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 26,699,230 (previous year 26,699,230 ) Equity shares of BRL 1 each | 633,545 | 633,545 |
| **Issued** | | |
| 26,699,230 (previous year 26,699,230 ) Equity shares of BRL 1 each | 633,545 | 633,545 |
| **Subscribed and paid-up** | | |
| 26,699,230 (previous year 26,699,230 ) Equity shares of BRL 1 each | 633,545 | 633,545 |
| | **633,545** | **633,545** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 26,699,230 | 633,545 | 26,699,230 | 633,545 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 26,699,230 | 633,545 | 26,699,230 | 633,545 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of BRL 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories Limited | 26,699,230 | 100 | 26,699,230 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and Surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (1,037,924) | (1,013,161) |
| Add: Current year profit / (loss) | 72,521 | (24,763) |
| | **(965,404)** | **(1,037,924)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 262,596 | 232,358 |
| | **262,596** | **232,358** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 103,402 | 147,945 |
| | **103,402** | **147,945** |
| **b) Other current liabilities** | | |
| Accrued expenses | 17,355 | 22,064 |
| Salary and Bonus payable | 350 | 7 |
| Due to statutory authorities | 159 | 231 |
| Other current liabilities | 38,908 | 94,139 |
| | **56,772** | **116,441** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | 8,693 | 23,310 |
| | **8,693** | **23,310** |
| **2.6 : Short term provisions** | | |
| Income tax payable | - | 36,278 |
| | **-** | **36,278** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Plant & Machinery | 24,906 | 20,753 | 9,173 | - | 36,486 | 24,250 | 7,368 | 472 | - | 31,146 | 5,340 | 656 |
| **TOTAL** | **24,906** | **20,753** | **9,173** | **-** | **36,486** | **24,250** | **7,368** | **472** | **-** | **31,146** | **5,340** | **656** |
| Previous Year | 23,632 | 1,298 | 24 | - | 24,906 | 21,385 | 4,200 | 1,335 | - | 24,250 | 656 | - |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 3,147 | 1,258 |
| | **3,147** | **1,258** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Finished goods | 846 | 841 |
| | **846** | **841** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | - | - |
| Considered doubtful | 41,370 | 43,120 |
| Other debts | | |
| Considered good | - | 3,701 |
| Receivables from holding company and other group companies | 215 | 1,315 |
| | 41,585 | 48,136 |
| *Less*: Provision for doubtful debts | (41,370) | (43,120) |
| | **215** | **5,016** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.11 : Cash and bank balances** | | |
| Cash on hand | 42 | 27 |
| Bank balances | | |
| In current accounts | 11,465 | 30,909 |
| | **11,507** | **30,936** |
| **2.12 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 371 | 425 |
| Staff loans and advances | 119 | 163 |
| Advance tax, net of provision for income taxes | 13,451 | 26,998 |
| Balances with Statutory Agencies | 1 | - |
| Prepaid expenses | 60 | - |
| Other Advances | 11,343 | 10 |
| | **25,345** | **27,596** |
| **2.13 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 2,300 | - |
| | **2,300** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.14 : Other income** | | |
| Interest income | 376 | 1,440 |
| Profit on sale of fixed assets, net | - | 586 |
| | **376** | **2,026** |
| **2.15 : Employee benefits expense** | | |
| Salaries, wages and bonus | 15,221 | 14,003 |
| Staff welfare expenses | 16,717 | 19,197 |
| | **31,938** | **33,200** |
| **2.16 : Finance costs** | | |
| Interest Expenses | 14,725 | 13,427 |
| | **14,725** | **13,427** |
| **2.17 : Other expense** | | |
| Legal and professional | 8,925 | 8,760 |
| Carriage outward | - | 86 |
| Rates and taxes | 2,822 | 8,335 |
| Other selling expenses | - | 136 |
| Travelling and conveyance | 1,809 | 1,686 |
| Communication | 1,508 | 1,585 |
| Rent | 1,384 | 3,462 |
| Insurance | 378 | 267 |
| Foreign exchange loss, net | 734 | 25,971 |
| Printing and stationery | 166 | 358 |
| Bank charges | 91 | 408 |
| Loss on sale of fixed assets, net | 75 | - |
| Miscellaneous | 1,828 | 11,428 |
| | **19,720** | **62,482** |

**2.18: Contingencies and commitment liabilities**

There were no commitments or contingent liabilities as on 31 March 2013 (previous year: Nil).

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.19: Related party disclosures**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Borrowings):<br>Dr. Reddy's Laboratories Limited | 262,596 | 232,358 |
| ii. | Due to related parties (included in Trade Payables):<br>Dr. Reddy's Laboratories Limited | 8,693 | 23,310 |
| iii. | Due from related parties<br>(included in Trade Receivables and other current assets):<br>Dr. Reddy's Laboratories Limited | 2,515 | 1,315 |

**2.20: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Current liabilities | 50,904 | 85,650 |
| **Deferred Tax Asset, net** | **50,904** | **85,650** |

**2.21: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.22:** The Company, incorporated in Brazil, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**VSS Seshagiri Rao Vempati**
Director

## DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit for the period after taxation | 848 | 169 |
| Balance brought forward | (216) | (385) |
| Balance carried forward to Balance Sheet | 632 | (216) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place: Hyderabad | **Satish Reddy** | **M.V. Narasimham** |
| Date: 10 May 2013 | Director | Director |

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories (Proprietary) Limited**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | - | - |
| Reserves and surplus | 2.2 | 632 | (216) |
| | | **632** | **(216)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | - | 99 |
| Other long term liabilities | 2.4 | 120 | 199 |
| | | **120** | **298** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 5,236 | 4,061 |
| Other current liabilities | 2.4 | 310 | 245 |
| | | **5,546** | **4,306** |
| | **TOTAL** | **6,298** | **4,388** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 111 | 145 |
| Intangible assets | 2.6 | 2 | - |
| Deferred tax assets, net | 2.18 | 68 | 135 |
| Long term loans and advances | 2.7 | 29 | 33 |
| | | **210** | **313** |
| **Current assets** | | | |
| Inventories | 2.8 | 3,043 | 987 |
| Trade receivables | 2.9 | 1,718 | 2,090 |
| Cash and bank balances | 2.10 | 1,188 | 967 |
| Short term loans and advances | 2.11 | 139 | 31 |
| | | **6,088** | **4,075** |
| | **TOTAL** | **6,298** | **4,388** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**M.V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 10,957 | 8,260 |
| License fees | | 79 | 79 |
| Other operating revenues | | 1 | - |
| **Revenue from operations** | | **11,037** | **8,339** |
| Other income | 2.12 | 332 | 40 |
| **Total revenue** | | **11,369** | **8,379** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 7,750 | 4,432 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.13 | (2,055) | (174) |
| Employee benefits expense | 2.14 | 2,121 | 1,736 |
| Finance costs | 2.15 | 25 | 7 |
| Depreciation and amortization expense | 2.6 | 58 | 53 |
| Other expenses | 2.16 | 2,399 | 2,078 |
| **Total expenses** | | **10,297** | **8,132** |
| **Profit before tax** | | **1,072** | **247** |
| Tax expense | | | |
| Current tax | | 173 | 98 |
| Deferred tax | | 51 | (20) |
| **Profit for the year** | | **848** | **169** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**M.V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |
| Vehicles | 3 to 5 |

Tenants improvements is being amortised over the primary period of lease.

**f) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

The management estimates the useful lives for the various intangible assets as follows:

| | Years |
|---|---|
| Technical know-how | 10 |
| Copyrights and Patents (including marketing / distribution rights) | 3 to 10 |

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

*License fee*

The Company enters into certain licensing and supply arrangements with certain third parties. These arrangements include certain performance obligations by the company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**k) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 100 (previous year 100) ordinary shares of Rand 1 each* | - | - |
| **Issued** | | |
| 100 (previous year 100) ordinary shares of Rand 1 each* | - | - |
| **Subscribed and paid-up** | | |
| 100 (previous year 100) ordinary shares of Rand 1 each* | - | - |
| | **-** | **-** |

*represents amount authorised, issued and paid-up of ₹ 472 (rounded off in lakhs in the above note).

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of ordinary shares | Amount | No. of ordinary shares | Amount |
| Number of shares outstanding at the beginning of the year | 100 | - | 100 | - |
| Shares issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **100** | **-** | **100** | **-** |

**(b) Terms/rights attached to equity shares**

The company has only one class of ordinary shares having a par value of Rand 1 per share. Each holder of ordinary shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of ordinary shares held | % equity shares held | No. of ordinary shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | 100 | 100 | 100 | 100 |

**Note 2 : Notes to financial statements**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Surplus / (deficit)*** | | |
| Balance at the beginning of the year | (216) | (385) |
| Add: Current year profit | 848 | 169 |
| | **632** | **(216)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | - | 99 |
| | **-** | **99** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 120 | 199 |
| | **120** | **199** |
| **b) Other current liabilities** | | |
| Accrued expenses | 212 | 209 |
| Other current liabilities | 98 | 36 |
| | **310** | **245** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | 4,428 | 3,190 |
| Payables to others | 808 | 871 |
| | **5,236** | **4,061** |

## Note 2 : Notes to financial statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Lease Hold Improvements | 81 | 3 | 25 | - | 59 | 31 | 13 | 22 | - | 22 | 37 | 50 |
| Vehicles | 23 | 1 | 4 | - | 20 | 3 | 5 | 3 | - | 5 | 15 | 20 |
| Furniture, Fixtures | 62 | 4 | 2 | - | 64 | 20 | 8 | 2 | - | 26 | 38 | 42 |
| Computers | 61 | 8 | 6 | - | 63 | 28 | 20 | 6 | - | 42 | 21 | 33 |
| **Total Tangible Assets (A)** | **227** | **16** | **37** | **-** | **206** | **82** | **46** | **33** | **-** | **95** | **111** | **145** |
| Intangibles | 42 | 14 | - | - | 56 | 42 | 12 | - | - | 54 | 2 | - |
| **Total Intangible Assets (B)** | **42** | **14** | **-** | **-** | **56** | **42** | **12** | **-** | **-** | **54** | **2** | **-** |
| **TOTAL (A+B)** | **269** | **30** | **37** | **-** | **262** | **124** | **58** | **33** | **-** | **149** | **113** | **145** |
| Previous year | 169 | 102 | 1 | - | 269 | 71 | 53 | - | - | 124 | 145 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 29 | 33 |
| | **29** | **33** |
| **2.8 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade (in respect of goods acquired for trading) | 3,043 | 987 |
| | **3,043** | **987** |
| **2.9 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 71 | - |
| Considered doubtful | 37 | 13 |
| Other debts | | |
| Considered good | 1,639 | 2,084 |
| Receivables from holding company and other group companies | 8 | 6 |
| | 1,755 | 2,103 |
| *Less*: Provision for doubtful debts | (37) | (13) |
| | **1,718** | **2,090** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,188 | 967 |
| | **1,188** | **967** |
| **2.11 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Staff loans and advances | 6 | 3 |
| Advance tax, net of provision for income taxes | 11 | 7 |
| Prepaid expenses | 14 | 6 |
| Other Advances | 108 | 15 |
| | **139** | **31** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.12 : Other income** | | |
| Interest income | 57 | 32 |
| Foreign exchange gain, net | 275 | 8 |
| | **332** | **40** |
| **2.13 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| Opening | | |
| Stock in trade | 987 | 813 |
| *Closing* | | |
| Stock in trade | 3,043 | 987 |
| *Net (increase) / decrease in stock* | **(2,055)** | **(174)** |
| **2.14 : Employee benefits expense** | | |
| Salaries, wages and bonus | 2,093 | 1,688 |
| Staff welfare expenses | 28 | 48 |
| | **2,121** | **1,736** |
| **2.15 : Finance costs** | | |
| Interest Expenses | 25 | 7 |
| | **25** | **7** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.16 : Other expense** | | |
| Legal and professional | 104 | 46 |
| Carriage outward | 103 | 92 |
| Other selling expenses | 664 | 660 |
| Repairs and maintenance | | |
| Buildings | - | 14 |
| Travelling and conveyance | 63 | 72 |
| Communication | 80 | 56 |
| Rent | 159 | 152 |
| Insurance | 39 | 36 |
| Provision - Advances & Debtors | 26 | - |
| Printing and stationery | 50 | 60 |
| Bank charges | 8 | 6 |
| Advertisements | 890 | 606 |
| Miscellaneous | 213 | 278 |
| | **2,399** | **2,078** |

**2.17: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.18: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities) :** | | |
| Trade receivables | 4 | (5) |
| Provisions | 17 | 17 |
| Inventories | 10 | 16 |
| Other current assets | (4) | (1) |
| Other current liabilities | (21) | 7 |
| Fixed assets | 62 | 101 |
| **Deferred Tax Asset, net** | **68** | **135** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.19: Related party Disclosures**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties<br>(included in Trade Receivables)<br>Dr. Reddy's Laboratories Ltd. | 8 | 6 |
| ii. | Due to related parties (included in Borrowings)<br>Dr. Reddy's Laboratories Ltd. | - | 99 |
| iii. | Due to related parties (included in Trade Payables)<br>Dr. Reddy's Laboratories Ltd. | 4,428 | 3,190 |

**2.20: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification

**2.21:** The Company, incorporated in the South Africa, is a 100% subsidiary of Dr. Reddy's Laboratories Ltd.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M.V. Narasimham**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit/ (Loss) for the period after taxation | 327 | (2,670) |
| Balance brought forward | 41,027 | 43,697 |
| Balance carried forward to Balance Sheet | 41,354 | 41,027 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **G.V. Prasad** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS’ REPORT

**To**
**The Board of Directors**
Dr. Reddy’s Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy’s Laboratories Inc**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor’s 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 5,802 | 5,802 |
| Reserves and surplus | 2.2 | 50,010 | 46,719 |
| | | **55,812** | **52,521** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 2 | 28 |
| Other long term liabilities | 2.4 | 65 | 129 |
| | | **67** | **157** |
| **Current liabilities** | | | |
| Short term borrowings | 2.3 | - | 25,463 |
| Trade payables | 2.5 | 174,553 | 99,696 |
| Other current liabilities | 2.4 | 12,904 | 5,783 |
| Short term provisions | 2.6 | 10,379 | 6,807 |
| | | **197,836** | **137,749** |
| | **TOTAL** | **253,715** | **190,427** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 250 | 672 |
| Intangible assets | 2.7 | 213 | - |
| Non current investments | 2.8 | 45,825 | 44,684 |
| Deferred tax assets, net | 2.21 | 5,311 | 3,583 |
| Long term loans and advances | 2.9 | 126 | 4,365 |
| | | **51,725** | **53,303** |
| **Current assets** | | | |
| Inventories | 2.10 | 54,001 | 29,766 |
| Trade receivables | 2.11 | 107,907 | 67,420 |
| Cash and bank balances | 2.12 | 1,537 | 3,114 |
| Short term loans and advances | 2.13 | 2,014 | 2,019 |
| Other current assets | 2.14 | 36,531 | 34,804 |
| | | **201,990** | **137,123** |
| | **TOTAL** | **253,715** | **190,427** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 406,809 | 331,455 |
| Service income | | 501 | 2,846 |
| License fees | | 65 | 1,765 |
| Other operating revenues | | 729 | 724 |
| **Revenue from operations** | | **408,104** | **336,790** |
| Other income | 2.15 | 38 | 34 |
| **Total revenue** | | **408,142** | **336,824** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 376,976 | 291,055 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.16 | (23,741) | (99) |
| Conversion charges | | 11,450 | 9,618 |
| Employee benefits expense | 2.17 | 12,585 | 11,062 |
| Finance costs | 2.18 | 343 | 736 |
| Depreciation and amortization expense | 2.7 | 424 | 435 |
| Research and development | | 4,364 | 1,607 |
| Other expenses | 2.19 | 17,635 | 22,847 |
| **Total expenses** | | **400,036** | **337,261** |
| **Profit /(Loss) before tax** | | **8,106** | **(436)** |
| Tax expense | 2.23 | | |
| Current tax | | 9,270 | 896 |
| Deferred tax | | (1,491) | 1,338 |
| **Profit /(Loss) for the year** | | **327** | **(2,670)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy** Director

**G.V. Prasad** Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

Lease hold improvements are amortised over the primary period of lease.

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management estimates the useful lives for the various intangible assets as follows:

| | **Years** |
|---|---|
| Technical know-how | 10 |
| Copyrights and Patents (including marketing / distribution rights) | 3 to 10 |

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and disposal. Gains or losses arising from the disposal of intangible asset are recognised in the statement of profit and loss.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable employee pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

Revenue from sales of active pharmaceutical ingredients and intermediates in India is recognized on delivery of products to customers. Revenue from sales of formulation products in India is recognized upon delivery of products to distributors by clearing and forwarding agents of the Company. Revenue from export sales is recognized when the significant risks and rewards of ownership of products are transferred to the customers, which is based upon the terms of the applicable contract.

Accrual for chargeback, rebates, discounts and medicaid payments are estimated and provided for in the year of sales and recorded as reduction of revenue. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is initially invoiced to the wholesaler and the net price at which it is agreed to be procured from the Company. Accrual for such chargeback is made considering the factors such as historical average chargeback rate actually claimed over a period of time, current contract prices with wholesalers / other customers and estimated inventory holding by the wholesaler.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

The Company accounts for sales returns accrual by recording an allowance for sales returns concurrent with the recognition of revenue at the time of a product sale. This allowance is based on the Company's estimate of expected sales returns.

*Profit share revenues*

From time to time the Company enters into marketing arrangements with certain business partners for the sale of its products in certain markets. Under such arrangements, the Company sells its products to the business partners at a price agreed upon in the arrangement and is also entitled to a profit share which is over and above the agreed price. The profit share is typically dependent on the business partner's ultimate net sale proceeds or net profit, subject to any reductions or adjustments that are required by the terms of the arrangement.

Revenue in an amount equal to the agreed price is recognized on these transactions upon delivery of products to the business partners. The additional amount representing the profit share component is recognized as revenue in the period which corresponds to the ultimate sales made by business partners only when the collectability of the profit share becomes probable and a reliable measure of the profit share is available. In arriving at this conclusion and in measuring the amount of profit share revenue to be recognized for such period, the Company uses all available information and evidences relating to the amounts owed to the Company under these arrangements, such as confirmations provided by business partners, including those made available on or before the date of approval of financial statements.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

*License fee*

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

### k) Provisions and contingent liabilities

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

*Onerous contracts*

A contract is considered as onerous when the expected economic benefits to be derived by the Company from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision for an onerous contract is measured at the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

### l) Government grants

The Company recognizes government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented as a reduction to the carrying amount of the related asset. Revenue Grants are deducted in reporting the related expense.

### m) Research and development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the statement of profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

- Development costs can be measured reliably,
- The product or process is technically and commercially feasible,
- Future economic benefits are probable and ascertainable, and
- The Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

Expenditure incurred on fixed assets used for research and development is capitalised and depreciated in accordance with the depreciation policy of the Company.

**n) Leases**

The lease arrangement is classified as either a finance lease or an operating lease, at the inception of the lease, based on the substance of the lease arrangement.

*Finance leases*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Operating leases*

Other leases are operating leases, and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in the statement of profit and loss on a straight-line basis over the term of the lease.

**o) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non-current investments.

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 1,500,000 (previous year 1,500,000) shares of USD 10 each | 6,735 | 6,735 |
| **Issued** | | |
| 1,401,000 (previous year 1,401,000) shares of USD 10 each | 5,802 | 5,802 |
| **Subscribed and paid-up** | | |
| 1,401,000 (previous year 1,401,000) shares of USD 10 each | 5,802 | 5,802 |
| | **5,802** | **5,802** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 1,401,000 | 5,802 | 1,401,000 | 5,802 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 1,401,000 | 5,802 | 1,401,000 | 5,802 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of USD 10 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares held | % of equity shares held | No. of shares held | % of equity shares held |
| Dr. Reddy’s Laboratories Limited | 401,000 | 29 | 401,000 | 29 |
| Dr. Reddy’s laboratories SA | 1,000,000 | 71 | 1,000,000 | 71 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 8,102 | 8,102 |
| Additions / (deductions) during the year | - | - |
| | 8,102 | 8,102 |
| ***Hedging Reserve*** | | |
| Balance at the beginning of the year | (2,410) | - |
| Additions / (deductions) during the year | 2,964 | (2,410) |
| | 554 | (2,410) |
| ***Surplus*** | | |
| Balance at the beginning of the year | 41,027 | 43,697 |
| Add: Current year profit / (loss) | 327 | (2,670) |
| Balance carried forward | 41,354 | 41,027 |
| | **50,010** | **46,719** |
| **2.3 : Borrowings** | | |
| **a) Long term borrowings** | | |
| ***Secured*** | | |
| Long term maturities of finance lease obligations | 2 | 28 |
| | **2** | **28** |
| **b) Short term borrowings** | | |
| ***Unsecured*** | | |
| Other short term loans | - | 25,463 |
| | **-** | **25,463** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 65 | 129 |
| | **65** | **129** |
| **b) Other current liabilities** | | |
| Current maturities of finance lease obligations | 28 | - |
| Due to capital creditors | 25 | - |
| Due to holding company and other group companies | 136 | 570 |
| Accrued expenses | 5,678 | 2,327 |
| Salary and Bonus payable | 2,820 | 2,627 |
| Due to statutory authorities | 55 | 259 |
| Other current liabilities | 4,162 | - |
| | **12,904** | **5,783** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | 169,009 | 96,983 |
| Payables to others | 5,544 | 2,713 |
| | **174,553** | **99,696** |
| **2.6 : Short term provisions** | | |
| Provision for employee benefits | 1 | 1 |
| Other Provisions | | |
| Allowance for sales returns | 10,378 | 6,806 |
| | **10,379** | **6,807** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Lease hold improvements | 663 | - | - | - | 663 | 360 | 209 | - | - | 569 | 94 | 209 |
| Electrical/ Office Equipment | 178 | 9 | - | - | 187 | 125 | 11 | - | - | 136 | 51 | 53 |
| Furniture, Fixtures | 647 | - | 261 | - | 386 | 449 | 93 | 242 | - | 300 | 86 | 198 |
| Computers | 441 | - | - | - | 441 | 323 | 99 | - | - | 422 | 19 | 118 |
| **Total Tangible Assets (A)** | **1,929** | **9** | **261** | **-** | **1,677** | **1,257** | **412** | **242** | **-** | **1,427** | **250** | **672** |
| Softwares | - | 225 | - | - | 225 | - | 12 | - | - | 12 | 213 | - |
| **Total Intangible Assets (B)** | **-** | **225** | **-** | **-** | **225** | **-** | **12** | **-** | **-** | **12** | **213** | **-** |
| **TOTAL (A+B)** | **1,929** | **234** | **261** | **-** | **1,902** | **1,257** | **424** | **242** | **-** | **1,439** | **463** | **672** |
| Previous year | 2,293 | 124 | 489 | - | 1,929 | 1,256 | 435 | 433 | - | 1,257 | 672 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Non current investments** | | |
| Investments in Subsidiaries, associates and joint ventures | 45,825 | 44,684 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | - | - |
| | **45,825** | **44,684** |
| **2.9 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 2 | 4,365 |
| Security Deposits | 124 | - |
| | **126** | **4,365** |
| **2.10 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade (in respect of goods acquired for trading) | 53,204 | 29,463 |
| Packing materials | 797 | 304 |
| | **54,001** | **29,766** |
| **2.11 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 522 | - |
| Considered doubtful | 769 | 489 |
| Other debts | | |
| Considered good | 107,385 | 67,236 |
| Receivables from holding company and other group companies | **-** | 184 |
| | 108,676 | 67,909 |
| *Less*: Provision for doubtful debts | (769) | (489) |
| | **107,907** | **67,420** |
| **2.12 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,537 | 3,114 |
| | **1,537** | **3,114** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.13 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 892 | 522 |
| Staff loans and advances | 8 | 6 |
| Advance tax, net of provision for income taxes | 551 | 1,265 |
| Prepaid expenses | 422 | 226 |
| Other Advances | 141 | - |
| ***Considered doubtful*** | | |
| Other advances recoverable in cash or in kind or for value to be received | 457 | 436 |
| | 2,471 | 2,455 |
| *Less*: Provision for doubtful loans and advances | (457) | (436) |
| | **2,014** | **2,019** |
| **2.14 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 36,528 | 34,801 |
| Other current assets | 3 | 3 |
| | **36,531** | **34,804** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.15 : Other income** | | |
| Interest income | 38 | 34 |
| | **38** | **34** |
| **2.16 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Stock in trade | 29,463 | 29,364 |
| *Closing* | | |
| Stock in trade | 53,204 | 29,463 |
| *Net (increase)* | **(23,741)** | **(99)** |
| **2.17 : Employee benefits expense** | | |
| Salaries, wages and bonus | 10,165 | 9,240 |
| Contribution to provident and other funds | 1,108 | 863 |
| Staff welfare expenses | 1,312 | 959 |
| | **12,585** | **11,062** |
| **2.18 : Finance costs** | | |
| Interest Expenses | 343 | 736 |
| | **343** | **736** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.19 : Other expense** | | |
| Legal and professional | 2,178 | 2,058 |
| Carriage outward | 6,014 | 6,637 |
| Rates and taxes | 100 | 153 |
| Other selling expenses | 3,282 | 1,646 |
| Repairs and maintenance | | |
| Buildings | 3 | 4 |
| Plant and machinery | - | 24 |
| Others | 2 | 87 |
| Travelling and conveyance | 945 | 1,076 |
| Communication | 391 | 402 |
| Rent | 684 | 688 |
| Insurance | 729 | 741 |
| Foreign exchange loss, net | 1,637 | 7,301 |
| Donations | 11 | 28 |
| Bad debts | 28 | 62 |
| Provision - Advances & Debtors | 243 | 504 |
| Printing and stationery | 123 | 119 |
| Bank charges | 41 | 26 |
| Loss on sale of fixed assets, net | 16 | - |
| Auditors' remuneration | | |
| Audit fees | 97 | 43 |
| Advertisements | 229 | 356 |
| Miscellaneous | 882 | 891 |
| | **17,635** | **22,847** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### 2.20: Contingencies and commitment

The company is involved in certain disputes, lawsuits and claims involving patent and commercial matters that arise from time to time in the ordinary course of business. The Company believes that there are no such pending matters that are expected to have any material adverse effect on its financial statements in any accounting period. Further, there were no commitments as at 31 March 2013 (previous year Nil).

### 2.21: Deferred taxation

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Losses carry forward | - | (270) |
| Trade receivables | 4,937 | 3,024 |
| Inventories | 591 | 270 |
| Current Liabilities | 658 | - |
| Other current Assets | (692) | 714 |
| Stock based compensation | (1577) | (1,190) |
| Depreciation | 1401 | 385 |
| Unrecognized Deferred Taxes | (7) | - |
| Current Liabilities | - | 649 |
| **Deferred Tax Asset, net** | **5,311** | **3,583** |

### 2.22: Related Party Disclosures:

The company has the following amount due to/from related parties :

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| i. Due from related parties (included in Advances and other assets): | | |
| Dr. Reddy’s Laboratories Limited | 4,003 | 3,563 |
| Promius Pharma LLC | 27,065 | 22,251 |
| Aurigene Discovery Technologies Inc. | 11 | 24 |
| Industrias Quimicas Falcon de Mexico, SA de CV | 2 | 1,275 |
| Dr. Reddy’s Laboratories Louisiana LLC | - | 4,958 |
| Dr. Reddy’s Laboratories New York, Inc | 5,268 | 6,327 |
| Dr. Reddy’s Laboratories Tennessee, LLC | - | 768 |
| Dr. Reddy’s Laboratories SA | 181 | - |
| ii. Due from related parties (included in Trade Receivables): | | |
| Industrias Quimicas Falcon de Mexico, SA de CV | - | 184 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| iii. | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy's Laboratories Limited | 83,658 | 71,935 |
| | Dr. Reddy's Laboratories SA, Switzerland | 69,763 | 24,255 |
| | Industrias Quimicas Falcon de Mexico, SA de CV | 1,268 | 253 |
| | Dr. Reddy's Laboratories (EU) Limited | - | 540 |
| | Dr. Reddy's Laboratories Louisiana LLC | 11,630 | - |
| | Dr. Reddy's Laboratories Tennessee LLC | 959 | - |
| | betapharma Arzneimittel GmbH | 1,713 | - |
| | Chirotech Technology Limited | 18 | - |
| iv. | Due to related parties (included in Borrowings and other liabilities): | | |
| | Dr. Reddy's Laboratories SA, Switzerland | - | 570 |
| | Dr. Reddy's Laboratories Limited | 136 | - |

**2.23:** The total tax expense for the company is computed and presented jointly with its subsidiary companies as per the laws of United States.

**2.24: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.25:** The Company is incorporated in the United States of America. Its 71% of shares are held by Dr. Reddy's Laboratories SA and the balance 29% are held by Dr. Reddy's Laboratories Limited.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (932) | (896) |
| Balance brought forward | (1,512) | (616) |
| Balance carried forward to Balance Sheet | (2,444) | (1,512) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr.Reddy's Laboratories International SA**., a company incorporated and administered outside India, which comprise the Balance Sheet as at March 31, 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far

as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 275,120 | 245,333 |
| Reserves and surplus | 2.2 | (2,444) | (1,512) |
| | | **272,676** | **243,821** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 654 | 116 |
| Short term provisions | 2.4 | 195 | 32 |
| | | **849** | **148** |
| | **TOTAL** | **273,525** | **243,969** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.5 | 42,070 | - |
| Non current investments | 2.6 | 225,299 | 225,299 |
| Long term loans and advances | 2.7 | - | 15,057 |
| | | **267,369** | **240,356** |
| **Current assets** | | | |
| Cash and bank balances | 2.8 | 6,103 | 3,462 |
| Short term loans and advances | 2.9 | 53 | 151 |
| | | **6,156** | **3,613** |
| | **TOTAL** | **273,525** | **243,969** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 2,069 | - |
| **Revenue from operations** | | **2,069** | **-** |
| Other income | 2.10 | 864 | 2,663 |
| **Total revenue** | | **2,933** | **2,663** |
| **Expenses** | | | |
| Employee benefits expense | 2.11 | - | 619 |
| Depreciation and amortization expense | 2.5 | 2,035 | - |
| Other expenses | 2.12 | 1,683 | 2,860 |
| **Total expenses** | | **3,718** | **3,479** |
| **Profit / (Loss) before tax** | | **(785)** | **(816)** |
| Tax expense | | | |
| Current tax | | 147 | 80 |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(932)** | **(896)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**e) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**f) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimate of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Plat and machinery | 3 to 15 |

**g) Provisions and Contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 6,900,000 (previous year: 4,600,000) Equity shares of CHF 1 each | 372,221 | 245,333 |
| **Issued** | | |
| 5,100,000 (previous year: 4,600,000) Equity shares of CHF 1 each | 275,120 | 245,333 |
| **Subscribed and paid-up** | | |
| 5,100,000 (previous year: 4,600,000) Equity shares of CHF 1 each | 275,120 | 245,333 |
| | **275,120** | **245,333** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 4,600,000 | 245,333 | 100,000 | 4,144 |
| Add: Share issued during the year | 500,000 | 29,787 | 4,500,000 | 241,189 |
| Number of shares outstanding at the end of the year | 5,100,000 | 275,120 | 4,600,000 | 245,333 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of CHF 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories SA | 5,100,000 | 100 | 4,600,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (1,512) | (616) |
| Add: Current year Loss | (932) | (896) |
| Balance carried forward | **(2,444)** | **(1,512)** |
| **2.3 : Other current liabilities** | | |
| Accrued expenses | 490 | 9 |
| Sales and use tax payable | 164 | - |
| Other current liabilities | - | 107 |
| | **654** | **116** |
| **2.4 : Short term provisions** | | |
| Income tax payable | 195 | 32 |
| | **195** | **32** |

## Note 2 : Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Plant & Machinery | - | 44,105 | - | - | 44,105 | - | 2,035 | - | - | 2,035 | 42,070 | - |
| **Total Tangible Assets** | **-** | **44,105** | **-** | **-** | **44,105** | **-** | **2,035** | **-** | **-** | **2,035** | **42,070** | **-** |
| Previous year | - | - | - | - | - | - | - | - | - | - | - | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Non current investment** | | |
| Investment in subsidiaries | 225,299 | 225,299 |
| | **225,299** | **225,299** |
| **2.7 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Capital advances for purchase of fixed assets | - | 15,057 |
| | **-** | **15,057** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 6,103 | 3,462 |
| | **6,103** | **3,462** |
| **2.9 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Balances with Statutory Agencies | 53 | 151 |
| | **53** | **151** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other income** | | |
| Interest income | 2 | 17 |
| Foreign exchange gain, net | 862 | 2,646 |
| | **864** | **2,663** |
| **2.11 : Employee benefits expense** | | |
| Salaries, wages and bonus | - | 619 |
| | **-** | **619** |
| **2.12 : Other expense** | | |
| Legal and professional | 832 | 843 |
| Rates and taxes | 296 | 1,941 |
| Bank charges | 57 | 67 |
| Auditor's remuneration | | |
| Audit fees | 360 | 9 |
| Miscellaneous | 138 | - |
| | **1,683** | **2,860** |

**2.13 Commitments and contingent liabilities**

There were no Commitments / contingent liabilities as at 31 March 2013 (Previous year ₹ 22,550).

**2.14 Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.15** The Company incorporated in the Switzerland, is a 100% subsidiary of Dr. Reddy's Laboratories SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 13th Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period | (792) | (157) |
| Balance Brought forward | (154,269) | (154,112) |
| Balance Carried forward to Balance Sheet | (155,061) | (154,269) |

**Operations**

The Company did not have any operation during the year.

**Dividend**

Your Directors do not recommend any dividend for the financial year ending 31 March 2013.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Directors Responsibility statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2012-13 and of net loss of the company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Audit Committee**

The Audit Committee consists of Mr. G.V. Prasad, Mr. Satish Reddy and Mr. A S Kumar as members of the Committee. The Audit Committee met 2 times during the year: on 9 May 2012, 26 October 2012.

The functions of the Audit Committee are:

a) Hold discussions with the auditors periodically about internal control systems and the scope of audit including observations of the auditors.

b) Review of the half-yearly and annual financial statements before submission to the Board and

c) Ensure the compliance of internal control systems in the Company

**Directors**

Mr. G V Prasad, retires by rotation at the ensuing Annual General Meeting scheduled on 29 July 2013 and being eligible seeks re-appointment. Your Directors recommends his re-appointment for your approval at the ensuing AGM.

**Auditors**

The Statutory Auditors of the Company M/s. A. Ramachandra Rao & Co., Chartered Accountants, retire at the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept office of auditors, if re-appointed. The Board of Directors recommend re-appointment of M/s. A. Ramachandra Rao & Co., Chartered Accountants as Statutory Auditors of the Company for the financial year 2013-14 for shareholder's approval.

**Particulars of Employees**

There are no employees who are drawing salary more than the amount as specified under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time. Hence the relevant provisions are not applicable to your Company.

**Conservation of energy, research and developments, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgements**

Your Directors place on record their sincere appreciation for support and co-operation extended by all the concerned to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Members of**
Dr. Reddy's Bio–Sciences Limited.
Hyderabad.

We have audited the accompanying financial statements of **Dr.Reddy's Bio-Sciences Ltd** which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

01. 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 India:

    a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

    b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

    c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

02. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

03. As required by section 227(3) of the Act, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books

c) the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

d) in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **A.Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A.Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## ANNEXURE TO THE AUDITORS' REPORT

(Of even date referred to in Para (2) of our Report)

i. (a) The Company is maintaining proper records to show full particulars ,including quantitative details and situation of fixed assets.

(b) The company has regular program of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets.

(c) During the year under report, the company has not disposed off any major part of the Plant and machinery and hence clause 4(i) (c) is not applicable.

ii. (a) The Company does not have any inventories and as such verification of stocks does not arise.In view of this the clauses 4(ii)(b) and 4(ii)(c) are not applicable to the company

iii. (a) the company has not granted or taken any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained u/s 301 of the Act during the year.

(b) In view of the above, the sub-clauses4(iii) (b), 4(iii)(c), and 4(iii)(d), are not applicable to the company.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets.The Company does not have any purchase of inventory and also for the sale of goods . During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

v. (a) In our opinion, and according to the information and explanations given to us, the transactions that need to be entered in the register maintained under section 301 of the Companies act 1956 have been so entered .

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies act.1956 and exceeding the value of Rupees Five lacs in respect of any party during the year have been made at prices which are reasonable having regard to prevailing market prices at the relevant time.

vi. Based on the information provided to us, in our opinion, the Company has not accepted any Deposits from the public during the year and hence, in our opinion, the Clause 4(vi) is not applicable to the company for the year;

vii. In our opinion, the company has an internal audit system to commensurate with its size and nature of its business.

viii. We are of the opinion, based on the information provided to us, the maintenance of cost records has not been prescribed by the Central Government under section 209(1) (d) of the Companies act ,1956 to the company.

ix. (a) According to the records of the company, the company is regular in depositing the undisputed statutory dues including Sales tax, Income-tax, Customs duty, Excise duty and Employees State Insurance and Provident Fund and cess, investor education fund with the appropriate authorities. We have been informed that the provision of provident fund, Investor Education protection fund, Employees State insurance ,sales tax ,custom duty and Excise duty are not applicable to the company.

(b) According to the information and explanations given to us, there are no dues of sales tax/income tax/ customs duty/Wealth tax /excise duty/cess to be deposited on account of any dispute;

(c) Further, since the Central government has till date not prescribed the amount of cess payable under section 441A of the Companies act 1956,we are not in a position to comment upon the regularity or otherwise of the company in depositing the same.

x. In our opinion the accumulated losses of the company are less than fifty percent of its net worth Further the Company has incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.

xi. Based on the information provided and explanation given to us, the company has no dues to a Financial institution or bank or debenture holders.

xii. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a Chit fund or Nidhi / Mutual Benefit Fund / Society and hence clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.

xiv. Based on the information given to us, the Company has not dealt or traded in shares, securities, debentures or other investments during the year.

xv. Based on the information provided to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.

xvi. According to the information and explanations given to us, the company has not obtained any term loans during the year and hence clause 4(xvi) of the order is not applicable to the company.

xvii. According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment;

xviii. Based on the information provided and explanations offered, during the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 and hence sub clause (xvii) of the order is not applicable to the company for the year.

xix. The Company has not issued any debentures and not created any securities or charges in respect of any debentures.

xx. The Company has not raised any money by way of Public Issue during the year.

xxi. In our opinion and according to the information provided and explanations offered to us, no fraud on or by the Company has been noticed or reported during the year.

For **A.Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A.Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 340,221 | 340,221 |
| Reserves and surplus | 2.2 | (155,061) | (154,269) |
| | | **185,160** | **185,952** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 83,040 | 82,660 |
| | | **83,040** | **82,660** |
| | **TOTAL** | **268,200** | **268,612** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.4 | 267,895 | 261,783 |
| Capital work-in-progress | | - | 6,112 |
| | | **267,895** | **267,895** |
| **Current assets** | | | |
| Cash and bank balances | 2.5 | 305 | 305 |
| Short-term loans and advances | 2.6 | - | 412 |
| | | **305** | **717** |
| | **TOTAL** | **268,200** | **268,612** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Md. Shahnawaz**
Company Secretary

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other Income | 2.7 | 20 | - |
| | | **20** | - |
| **Expenses** | | | |
| Other expenses | 2.8 | 811 | 157 |
| | | **811** | **157** |
| **Loss before exceptional and extraordinary items and tax** | | **(792)** | **(157)** |
| Exceptional items | | - | - |
| **Loss before extraordinary items and tax** | | **(792)** | **(157)** |
| Extraordinary Items | | - | - |
| **Loss before tax** | | **(792)** | **(157)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Loss for the year** | | **(792)** | **(157)** |
| **Earnings per share** | 2.9 | | |
| Basic - Par value ₹ 10 per share | | (0.023) | (0.005) |
| Diluted - Par value ₹ 10 per share | | (0.023) | (0.005) |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Md. Shahnawaz**
Company Secretary

## Cash Flow Statement

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the year | (792) | (157) |
| Adjustments: | | |
| Advance tax written off | 412 | - |
| Operating loss before working capital changes | (380) | (157) |
| Increase in Other Current Liabilities | 380 | 157 |
| **Cash generated from Operations** | - | - |
| Less: income tax paid | - | - |
| **Net cash provided by operating activities** | **-** | **-** |
| **Cash flows From/(Used In) investing activities** | - | - |
| **Cash flows From/(Used In) financing activites** | - | - |
| **Net increase/(decrease) in cash & bank balances** | **-** | **-** |
| Cash & bank balances at the beginning of the year | 305 | 305 |
| **Cash & bank balances at the end of the year** | **305** | **305** |

As per our report even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Md. Shahnawaz**
Company Secretary

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation**

The financial statements have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956. The financial statements are rounded off to the nearest thousands.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees Thousands, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Fixed assets, depreciation and amortisation**

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Land is not depreciated. Depreciation on other fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the companies Act, 1956 or based on the useful life of the assets as estimated by Management whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

**d) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

Deferred tax

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in

**Note 1: Significant Accounting Policies (continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**e) Earnings per share**

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares.

**f) Provisions and contingent liabilities**

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

**g) Investments**

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Revenue recognition**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 35,000,000 (previous year 35,000,000) Equity shares of ₹ 10/- each | 350,000 | 350,000 |
| **Issued, Subscribed and Paid up** | | |
| 34,022,070 (previous year 34,022,070) Equity Shares of ₹ 10/- each | 340,221 | 340,221 |
| | **340,221** | **340,221** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | Amount | No. of shares | Amount |
| Number of shares at the beginning of the period | 34,022,070 | 340,221 | 34,022,070 | 340,221 |
| Issued during the period | - | - | - | - |
| Outstanding at the end of the period | **34,022,070** | **340,221** | **34,022,070** | **340,221** |

**(b) Terms/rights attached to shares**

The company has only one class of equity share having a par value of ₹ 10/- per share . Each holder of equity share is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | % holding in the class | No. of shares | % holding in the class |
| Dr Reddy’s laboratories Ltd | 34,022,010 | 99.99 | 34,022,010 | 99.99 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance in profit and loss account brought forward | (154,269) | (154,112) |
| Add: Transfer from General Reserve | - | - |
| | (154,269) | (154,112) |
| Add: Current Year Profit/(Loss) | (792) | (157) |
| **Balance Carried Forward** | **(155,061)** | **(154,269)** |
| **2.3 : Other Current liabilities** | | |
| Payable to holding company | 69,010 | 69,010 |
| Outstanding Liabilities | 14,030 | 13,650 |
| | **83,040** | **82,660** |

**Note 2 : Notes to financial statements (Continued)**

**2.4 : Fixed assets**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | Depreciation / Amortization | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | As at 31.03.2013 | As at 01.04.12 | For the year | Deletions | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| ***Tangible Assets*** | | | | | | | | | | |
| Land | 261,783 | - | - | 261,783 | - | - | - | - | 261,783 | 261,783 |
| Buildings & Ancillary structures | - | 6,112 | - | 6,112 | - | - | - | - | 6,112 | - |
| **Total Tangible Assets** | **261,783** | **6,112** | **-** | **267,895** | **-** | **-** | **-** | **-** | **267,895** | **261,783** |
| Previous year | 261,783 | - | - | 261,783 | - | - | - | - | 261,783 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.5: Cash and Bank Balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 305 | 305 |
| | **305** | **305** |
| **2.6: Short-term loans and advances** | | |
| Advance tax | - | 412 |
| | **-** | **412** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7: Other Income** | | |
| Excess Liability Written Back | 20 | - |
| | **20** | **-** |
| **2.8 : Other expenses** | | |
| Rates & Taxes | - | 3 |
| Auditors Remuneration | 11 | 11 |
| Electricity Expenses | 391 | - |
| General Expenses | 409 | 143 |
| | **811** | **157** |
| **2.9 : Earnings per share** | | |
| Loss for the year | (792) | (157) |
| **Shares:** | | |
| Weighted average number of equity shares outstanding during the year - Basic | 34,022,070 | 34,022,070 |
| Weighted average number of equity shares outstanding during the year - Diluted | 34,022,070 | 34,022,070 |
| Basic Earnings / (Loss) in ₹ per share | (0.023) | (0.005) |
| Diluted Earnings / (Loss) in ₹ per share | (0.023) | (0.005) |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.10 Related Party Disclosures :**

The company has the following amount due to / from related parties :

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Due to related parties (included in other current liabilties) | | |
| Dr. Reddy's Laboratories Ltd. | 69,010 | 69,010 |

**2.11:** Claims against the Company not acknowledged as debts - Nil (previous year Nil).

**2.12: Comparitive Figures**

Previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year presentation.

As per our report even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

**Md. Shahnawaz**
Company Secretary

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (823) | (3) |
| Balance brought forward | (3) | - |
| Balance carried forward to Balance Sheet | (826) | (3) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**M Raja Sarath Chandra**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories, LLC Ukraine** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 709 | 709 |
| Reserves and surplus | 2.2 | (826) | (3) |
| | | **(117)** | **706** |
| **Current liabilities** | | | |
| Trade payables | 2.3 | 11,711 | 602 |
| Other current liabilities | 2.4 | 558 | 6 |
| Short term provisions | 2.5 | 14 | - |
| | | **12,283** | **608** |
| | **TOTAL** | **12,166** | **1,314** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 6 | 3 |
| Intangible assets | 2.6 | 4 | - |
| Deferred tax assets, net | | 174 | 13 |
| | | **184** | **16** |
| **Current assets** | | | |
| Inventories | 2.7 | 6,348 | 602 |
| Trade receivables | 2.8 | 4,960 | - |
| Cash and bank balances | 2.9 | 638 | 694 |
| Short term loans and advances | 2.10 | 36 | 2 |
| | | **11,982** | **1,298** |
| | **TOTAL** | **12,166** | **1,314** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**M Raja Sarath Chandra**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 11,283 | - |
| Other income | 2.11 | 8 | 48 |
| **Total revenue** | | **11,291** | **48** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 17,090 | 602 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.12 | (5,740) | (602) |
| Employee benefits expense | 2.13 | 250 | 52 |
| Depreciation and amortization expense | 2.6 | 4 | 1 |
| Other expenses | 2.14 | 641 | 11 |
| **Total expenses** | | **12,245** | **64** |
| **Profit / (Loss) before tax** | | **(954)** | **(16)** |
| Tax expense | | | |
| Current tax | | 30 | - |
| Deferred tax | | (161) | (13) |
| **Profit / (Loss) for the year** | | **(823)** | **(3)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**M Raja Sarath Chandra**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Computer equipment | 3 |

**f) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Software | 3 |

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**j) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**k) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**l) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| UAH 11,967,724 (previous year 11,967,724)* | 709 | 709 |
| **Issued** | | |
| UAH 11,967,724 (previous year 11,967,724)* | 709 | 709 |
| **Subscribed and paid-up** | | |
| UAH 11,967,724 (previous year 11,967,724)* | 709 | 709 |
| | **709** | **709** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (3) | - |
| Add: Current year loss | (823) | (3) |
| | **(826)** | **(3)** |
| **2.3 : Trade Payables** | | |
| Payable to holding company and other group companies | 9,971 | 602 |
| Payables to others | 1,740 | - |
| | **11,711** | **602** |
| **2.4 : Other current liabilities** | | |
| Accrued expenses | 515 | 3 |
| Other current liabilities | 43 | 3 |
| | **558** | **6** |
| **2.5 : Short term provisions** | | |
| Provision for employee benefits | 10 | - |
| Income tax payable | 4 | - |
| | **14** | **-** |

**Note 2 : Notes to financial statements (Continued)**

**2.6 : Fixed assets**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Computers | 4 | 7 | 1 | - | 10 | 1 | 4 | 1 | - | 4 | 6 | 3 |
| **Total Tangible Assets (A)** | **4** | **7** | **1** | **-** | **10** | **1** | **4** | **1** | **-** | **4** | **6** | **3** |
| Softwares | - | 4 | - | - | 4 | - | - | - | - | - | 4 | - |
| **Total Intangible Assets (B)** | **-** | **4** | **-** | **-** | **4** | **-** | **-** | **-** | **-** | **-** | **4** | **-** |
| **TOTAL (A+B)** | **4** | **11** | **1** | **-** | **14** | **1** | **4** | **1** | **-** | **4** | **10** | **3** |
| Previous year | - | 4 | - | - | 4 | - | 1 | - | - | 1 | 3 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade | 6,342 | 602 |
| Packing materials | 6 | - |
| | **6,348** | **602** |
| **2.8 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 4,960 | - |
| | 4,960 | - |
| *Less*: Provision for doubtful debts | - | - |
| | **4,960** | **-** |
| **2.9 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 638 | 694 |
| | **638** | **694** |
| **2.10 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 32 | 1 |
| Staff loans and advances | 1 | - |
| Prepaid expenses | 3 | 1 |
| | **36** | **2** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.11 : Other income** | | |
| Interest income | 8 | - |
| Foreign exchange gain, net | - | 48 |
| | **8** | **48** |
| **2.12 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Stock-in-trade | 602 | - |
| *Closing* | | |
| Stock-in-trade | 6,342 | 602 |
| *Net (increase)* | **(5,740)** | **(602)** |
| **2.13 : Employee benefits expense** | | |
| Salaries, wages and bonus | 198 | 34 |
| Contribution to provident and other funds | 45 | 12 |
| Staff welfare expenses | 7 | 6 |
| | **250** | **52** |
| **2.14 : Other expense** | | |
| Legal and professional | 67 | 3 |
| Rates and taxes | 13 | - |
| Other selling expenses | 31 | - |
| Travelling and conveyance | 7 | 2 |
| Communication | 3 | - |
| Rent | 51 | 4 |
| Insurance | 4 | - |
| Foreign exchange loss, net | 207 | - |
| Bank charges | 11 | 1 |
| Miscellaneous | 247 | 1 |
| | **641** | **11** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.15: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as on 31 March 2013 (previous year: Nil).

**2.16: Deferred taxation**

Deferred tax assets, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred Tax Assets / (liabilities)** | | |
| Loss carry forward | - | 13 |
| Provisions | 108 | - |
| Inventories | 66 | - |
| **Deferred tax asset, net** | **174** | **13** |

**2.17: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Trade payables) | | |
| | Dr. Reddy's Laboratories Ltd. | 9,675 | 44 |
| | Dr Reddy's Laboratories SA | 296 | 558 |

**2.18: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.19:** The Company, incorporated in Ukraine, is a 100% subsidiary of Dr. Reddy's Laboratories SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**M Raja Sarath Chandra**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (420,192) | (195,425) |
| Balance brought forward | (195,425) | - |
| Balance carried forward to Balance Sheet | (615,617) | (195,425) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

**G.V. Prasad**
Director

# AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories New York, Inc**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec. 212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far

as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 130 | 23 |
| Reserves and surplus | 2.2 | 726,274 | 55,518 |
| | | **726,404** | **55,541** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | - | 309,027 |
| | | **-** | **309,027** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 15,149 | 3,427 |
| Other current liabilities | 2.5 | 664,665 | 400,990 |
| Short term provisions | 2.6 | 96 | 90 |
| | | **679,910** | **404,507** |
| | **TOTAL** | **1,406,314** | **769,075** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 110,327 | 116,211 |
| Intangible assets | 2.7 | 111,963 | 117,648 |
| Capital work-in-progress | | 927,462 | 167,618 |
| Long term loans and advances | 2.8 | 1,761 | 101 |
| | | **1,151,513** | **401,578** |
| **Current assets** | | | |
| Inventories | 2.9 | 187,858 | 271,601 |
| Cash and bank balances | 2.10 | 29,733 | 36,694 |
| Short term loans and advances | 2.11 | 37,210 | 59,202 |
| | | **254,801** | **367,497** |
| | **TOTAL** | **1,406,314** | **769,075** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 128 | 293,064 |
| **Revenue from operations** | | **128** | **293,064** |
| Other income | 2.12 | 751 | - |
| **Total revenue** | | **879** | **293,064** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 252,706 | 56,976 |
| Changes in inventories of finished goods and work-in-progress | 2.13 | (107,434) | (10,760) |
| Employee benefits expense | 2.14 | 88,305 | 42,534 |
| Finance costs | 2.15 | 64 | - |
| Depreciation and amortization expense | 2.7 | 27,792 | 27,040 |
| Other expenses | 2.16 | 159,638 | 372,699 |
| **Total expenses** | | **421,071** | **488,489** |
| **Profit / (Loss) before tax** | | **(420,192)** | **(195,425)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(420,192)** | **(195,425)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management’s estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

**f) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 10 |

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 30,000 (previous year: 10,000) shares of USD 0.10 each | 156 | 45 |
| **Issued** | | |
| 25,000 (previous year: 5,000) shares of USD 0.10 each | 130 | 23 |
| **Subscribed and paid-up** | | |
| 25,000 (previous year: 5,000) shares of USD 0.10 each | 130 | 23 |
| | **130** | **23** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 5,000 | 23 | - | - |
| Add: Share issued during the year | 20,000 | 107 | 5,000 | 23 |
| Number of shares outstanding at the end of the year | 25,000 | 130 | 5,000 | 23 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of USD 0.10 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories International SA | 5,000 | 20 | 5,000 | 100 |
| Dr Reddy's Laboratories SA | 20,000 | 80 | - | - |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 25,666 | - |
| Additions / (deductions) during the year | 12,755 | 25,666 |
| | 38,421 | 25,666 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 225,277 | - |
| Additions / (deductions) during the year | 1,078,193 | 225,277 |
| | 1,303,470 | 225,277 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (195,425) | - |
| Add: Current year loss | (420,192) | (195,425) |
| Balance carried forward | (615,617) | (195,425) |
| | **726,274** | **55,518** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | - | 309,027 |
| | **-** | **309,027** |
| **2.4 : Trade Payables** | | |
| Payables to others | 15,149 | 3,427 |
| | **15,149** | **3,427** |
| **2.5 : Other current liabilities** | | |
| Due to capital creditors | 2,321 | 11,123 |
| Due to holding company and other group companies | 526,784 | 323,621 |
| Accrued expenses | 40,181 | - |
| Other current liabilities | 95,379 | 66,246 |
| | **664,665** | **400,990** |
| **2.6 : Short term provisions** | | |
| Provision for employee benefits | 96 | 90 |
| | **96** | **90** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Building | 74,429 | - | - | 4,989 | 79,418 | 3,846 | 5,690 | - | 243 | 9,779 | 69,639 | 70,583 |
| Plant & Machinery | 58,419 | - | 2,211 | 3,915 | 60,123 | 13,725 | 8,113 | 2,211 | 919 | 20,546 | 39,577 | 44,694 |
| Furniture, Fixtures | 641 | - | - | 43 | 684 | 105 | 155 | - | 7 | 267 | 417 | 536 |
| Computers | 539 | 426 | - | 35 | 1,000 | 141 | 159 | - | 6 | 306 | 694 | 398 |
| **Total Tangible Assets (A)** | **134,028** | **426** | **2,211** | **8,982** | **141,225** | **17,817** | **14,117** | **2,211** | **1,175** | **30,898** | **110,327** | **116,211** |
| Intangibles | 127,188 | - | - | 8,525 | 135,713 | 9,540 | 13,675 | - | 535 | 23,750 | 111,963 | 117,648 |
| **Total Intangible Assets (B)** | **127,188** | **-** | **-** | **8,525** | **135,713** | **9,540** | **13,675** | **-** | **535** | **23,750** | **111,963** | **117,648** |
| **TOTAL (A+B)** | **261,216** | **426** | **2,211** | **17,507** | **276,938** | **27,357** | **27,792** | **2,211** | **1,710** | **54,648** | **222,290** | **233,859** |
| Previous year | - | 259,513 | - | 1,703 | 261,216 | - | 27,040 | - | 317 | 27,357 | 233,859 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Capital advances for purchase of fixed assets | 1,355 | - |
| Security Deposits | 406 | 101 |
| | **1,761** | **101** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 69,664 | 260,841 |
| Work-in-progress | 118,194 | - |
| Finished goods | - | 10,760 |
| | **187,858** | **271,601** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 29,733 | 36,694 |
| | **29,733** | **36,694** |
| **2.11 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 9,539 | - |
| Advance tax, net of provision for income taxes | 56 | - |
| Prepaid expenses | 7,214 | 484 |
| Other Advances | 20,401 | 58,718 |
| | **37,210** | **59,202** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.12 : Other income** | | |
| Profit on sale of fixed assets, net | 751 | - |
| | **751** | **-** |
| **2.13 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| Opening | | |
| Finished goods | 10,760 | - |
| *Closing* | | |
| Work-in-process | 118,194 | - |
| Finished goods | - | 10,760 |
| *Net (increase) / decrease in stock* | **(107,434)** | **(10,760)** |
| **2.14 : Employee benefits expense** | | |
| Salaries, wages and bonus | 71,684 | 40,041 |
| Contribution to provident and other funds | 6,412 | - |
| Staff welfare expenses | 10,209 | 2,493 |
| | **88,305** | **42,534** |
| **2.15 : Finance costs** | | |
| Interest Expenses | 64 | - |
| | **64** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.16 : Other expense** | | |
| Legal and professional | 31,578 | 41,747 |
| Carriage outward | 4,639 | 215 |
| Rates and taxes | 2,354 | 1,417 |
| Repairs and maintenance | | |
| Buildings | 5,228 | 395 |
| Plant and machinery | 8,349 | 5,801 |
| Others | 70,835 | 954 |
| Power and fuel | 3,704 | 1,082 |
| Travelling and conveyance | 2,142 | 1,129 |
| Communication | 950 | 406 |
| Rent | 8,863 | 2,726 |
| Insurance | 11,078 | 2,147 |
| Foreign exchange loss, net | 12 | - |
| Printing and stationery | 986 | 486 |
| Advance written off | - | 305,448 |
| Bank charges | 1,568 | 77 |
| Miscellaneous | 7,352 | 8,669 |
| | **159,638** | **372,699** |

**Note 2 : Notes to financial statements (continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.17: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year – Nil).

**2.18: Related Party Disclosures:**

| | Particualrs | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties<br>(included in Borrowings and Other current liabilities)<br>Dr. Reddy's Laboratories Inc | 526,784 | 632,648 |

**2.19 : Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.20:** The Company, incorporated in the USA, is a 80% subsidiary of Dr. Reddy's Laboratories SA and the balance 20% is held by Dr. Reddy's Laboratories International SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit for the period after taxation | 23,502 | 15,829 |
| Balance brought forward | 21,716 | 5,887 |
| Balance carried forward to Balance Sheet | 45,218 | 21,716 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy** — Director
**M. V. Narasimham** — Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories Romania SRL**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 23,743 | 23,743 |
| Reserves and surplus | 2.2 | 45,218 | 21,716 |
| | | **68,961** | **45,459** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 36,358 | 31,481 |
| Short term provisions | 2.4 | 1,202 | 2,445 |
| | | **37,560** | **33,926** |
| | **TOTAL** | **106,521** | **79,385** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.5 | 4,945 | 11,141 |
| Deferred tax assets, net | 2.15 | 1,180 | 941 |
| Long term loans and advances | 2.6 | 1,137 | 1,047 |
| | | **7,262** | **13,129** |
| **Current assets** | | | |
| Inventories | 2.7 | 7 | 1,823 |
| Trade receivables | 2.8 | 25,088 | 21,366 |
| Cash and bank balances | 2.9 | 15,027 | 10,102 |
| Short term loans and advances | 2.10 | 59,137 | 32,965 |
| | | **99,259** | **66,256** |
| | **TOTAL** | **106,521** | **79,385** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M. V. Narasimham**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 319,261 | 269,178 |
| **Revenue from operations** | | **319,261** | **269,178** |
| Other income | 2.11 | 3,257 | 218 |
| **Total revenue** | | **322,518** | **269,396** |
| **Expenses** | | | |
| Employee benefits expense | 2.12 | 128,168 | 99,469 |
| Depreciation and amortization expense | 2.5 | 8,116 | 11,536 |
| Other expenses | 2.13 | 156,911 | 137,166 |
| **Total expenses** | | **293,195** | **248,171** |
| **Profit before tax** | | **29,323** | **21,225** |
| Tax expense | | | |
| Current tax | | 6,047 | 6,321 |
| Deferred tax | | (226) | (925) |
| **Profit for the year** | | **23,502** | **15,829** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M. V. Narasimham**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |
| Vehicles | 3 to 5 |

**e) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**f) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date, not covered by forward exchange contracts, are translated at year-end rates. The resultant exchange differences are recognised in the profit and loss account. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

**g) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets.

Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**h) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 170,000 (previous year 170,000) shares of RON 10 each | 23,743 | 23,743 |
| **Issued** | | |
| 170,000 (previous year 170,000) shares of RON 10 each | 23,743 | 23,743 |
| **Subscribed and paid-up** | | |
| 170,000 (previous year 170,000) shares of RON 10 each | 23,743 | 23,743 |
| | **23,743** | **23,743** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 170,000 | 23,743 | 170,000 | 23,743 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **170,000** | **23,743** | **170,000** | **23,743** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of RON 10 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories SA | 169,983 | 99.99 | 169,983 | 99.99 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Surplus*** | | |
| Balance at the beginning of the year | 21,716 | 5,887 |
| Add: Current year profit | 23,502 | 15,829 |
| Balance carried forward | **45,218** | **21,716** |
| **2.3 : Other current liabilities** | | |
| Payable to holding company and group companies | 22,400 | 22,012 |
| Accrued expenses | 3,792 | 2,412 |
| Due to statutory authorities | 3,092 | 2,649 |
| Other current liabilities | 7,074 | 4,408 |
| | **36,358** | **31,481** |
| **2.4 : Short term provisions** | | |
| Income tax payable | 1,202 | 2,445 |
| | **1,202** | **2,445** |

## Note 2 : Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Lease Hold Improvements | 980 | 174 | - | - | 1,154 | 344 | 263 | - | - | 607 | 547 | 636 |
| Vehicles | 21,041 | 183 | 4,543 | - | 16,681 | 14,447 | 5,532 | 4,543 | - | 15,436 | 1,245 | 6,594 |
| Office Equipment | 98 | - | - | - | 98 | - | 31 | - | - | 31 | 67 | 98 |
| Furniture & Fixtures | 417 | - | 164 | - | 253 | 52 | 198 | 164 | - | 86 | 167 | 365 |
| Computers | 4,396 | 1,566 | 638 | - | 5,324 | 948 | 2,092 | 635 | - | 2,405 | 2,919 | 3,448 |
| **TOTAL** | **26,932** | **1,923** | **5,345** | **-** | **23,510** | **15,791** | **8,116** | **5,342** | **-** | **18,565** | **4,945** | **11,141** |
| Previous Year | 23,515 | 4,048 | 631 | - | 26,932 | 4,538 | 11,536 | 283 | - | 15,791 | 11,141 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security deposits | 1,137 | 1,047 |
| | **1,137** | **1,047** |
| **2.7 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stores and spares | 7 | 1,823 |
| | **7** | **1,823** |
| **2.8 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Receivables from holding company and other group companies | 25,088 | 21,366 |
| | 25,088 | 21,366 |
| *Less*: Provision for doubtful debts | - | - |
| | **25,088** | **21,366** |
| **2.9 : Cash and bank balances** | | |
| Bank balances | | |
| In current accounts | 15,027 | 10,102 |
| | **15,027** | **10,102** |
| **2.10 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 88 | 527 |
| Staff loans and advances | 316 | 328 |
| Balances with Statutory Agencies | 55,999 | 29,395 |
| Prepaid expenses | 2,734 | 2,715 |
| | **59,137** | **32,965** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.11 : Other income** | | |
| Interest income | 286 | - |
| Profit on sale of fixed assets, net | 1,894 | - |
| Foreign exchange gain, net | 1,077 | 218 |
| | **3,257** | **218** |
| **2.12 : Employee benefits expense** | | |
| Salaries, wages and bonus | 123,823 | 95,030 |
| Staff welfare expenses | 4,345 | 4,439 |
| | **128,168** | **99,469** |
| **2.13 : Other expense** | | |
| Legal and professional | 4,636 | 3,650 |
| Other selling expenses | 96,482 | 80,697 |
| Travelling and conveyance | 9,437 | 8,674 |
| Communication | 4,258 | 3,245 |
| Rent | 13,818 | 5,994 |
| Insurance | 2,688 | 2,517 |
| Printing and stationery | 407 | 305 |
| Bank charges | 318 | 302 |
| Loss on sale of fixed assets, net | - | 43 |
| Auditors' remuneration | | |
| Audit fees | 231 | 222 |
| Advertisements | 649 | 1,986 |
| Miscellaneous | 23,987 | 29,531 |
| | **156,911** | **137,166** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.14: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.15 : Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred Tax Assets / (liabilities)** | | |
| Current liabilities | 1,180 | 941 |
| **Deferred tax asset, net** | **1,180** | **941** |

**2.16: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties<br>(included in other current liabilities) | | |
| | Dr. Reddy's Laboratories Ltd. | 22,400 | 22,102 |
| ii. | Due from related parties<br>(included in Trade Receivables) | | |
| | Dr. Reddy's Laboratories Ltd. | 114 | 112 |
| | Dr.Reddy's Laboratories S.A | 24,974 | 21,253 |

**2.17: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.18:** The Company incorporated in Romania, is a 100% subsidiary of Dr. Reddy's Laboratories SA, Switzerland.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**M. V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (689) | (2,110) |
| Balance brought forward | (2,428) | (318) |
| Balance carried forward to Balance Sheet | (3,117) | (2,428) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**G.V. Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr.Reddy's Laboratories Tennessee,LLC.**, a company incorporated and administered outside India, which comprise the Balance Sheet as at March 31, 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 11,196 | 11,196 |
| Reserves and surplus | 2.2 | (836) | (871) |
| | | **10,360** | **10,325** |
| **Current liablities** | | | |
| Trade payables | 2.3 | 1,662 | 516 |
| Other current liabilities | 2.4 | 986 | 1,702 |
| Short term provisions | 2.5 | 4 | 4 |
| | | **2,652** | **2,222** |
| | **TOTAL** | **13,012** | **12,547** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 6,018 | 6,265 |
| Intangible assets | 2.6 | 2,188 | 2,585 |
| Capital work-in-progress | | 212 | 127 |
| | | **8,418** | **8,976** |
| **Current assets** | | | |
| Inventories | 2.7 | 3,353 | 2,977 |
| Trade receivables | 2.8 | 959 | - |
| Cash and bank balances | 2.9 | 193 | 326 |
| Short term loans and advances | 2.10 | 89 | 268 |
| | | **4,594** | **3,571** |
| | **TOTAL** | **13,012** | **12,547** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G.V. Prasad**
Director

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 22,542 | 13,803 |
| Other operating revenue | | 453 | 279 |
| **Total revenue** | | **22,995** | **14,082** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 12,497 | 6,126 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.11 | 605 | 410 |
| Employee benefits expense | 2.12 | 5,159 | 3,770 |
| Depreciation and amortization expense | 2.6 | 1,502 | 1,294 |
| Research and development | | 146 | - |
| Other expenses | 2.13 | 3,775 | 4,592 |
| **Total expenses** | | **23,684** | **16,193** |
| **Profit/(Loss) before tax** | | **(689)** | **(2,110)** |
| Tax expense | 2.16 | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit/ (Loss) for the year** | | **(689)** | **(2,110)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**G.V. Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities repectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer) | 3 to 5 |
| Computer equipment | 3 |

**f) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 5 |

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**k) Revenue recognition**

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

**l) Research and development**

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the statement of profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- Development costs can be measured reliably,
- The product or process is technically and commercially feasible,
- Future economic benefits are probable and ascertainable, and
- The Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

  Expenditure incurred on fixed assets used for research and development is capitalised and depreciated in accordance with the depreciation policy of the Company.

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| USD 25,000,000 (previous year USD 25,000,000)* | 11,196 | 11,196 |
| **Issued** | | |
| USD 25,000,000 (previous year USD 25,000,000)* | 11,196 | 11,196 |
| **Subscribed and paid-up** | | |
| USD 25,000,000 (previous year USD 25,000,000)* | 11,196 | 11,196 |
| | **11,196** | **11,196** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 1,557 | (44) |
| Additions / (deductions) during the year | 724 | 1,601 |
| | 2,281 | 1,557 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (2,428) | (318) |
| Add: Current year loss | (689) | (2,110) |
| Balance carried forward | (3,117) | (2,428) |
| | **(836)** | **(871)** |
| **2.3 : Trade Payables** | | |
| Payable to others | 1,662 | 516 |
| | **1,662** | **516** |
| **2.4 : Other current liabilities** | | |
| Due to capital creditors | 63 | 29 |
| Due to holding company and other group companies | 11 | 768 |
| Accrued expenses | 716 | 737 |
| Other current liabilities | 196 | 168 |
| | **986** | **1,702** |
| **2.5 : Short term provisions** | | |
| Provision for employee benefits | 4 | 4 |
| | **4** | **4** |

**Note 2 : Notes to financial statements (Continued)**

**2.6 : Fixed assets**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Description** | **As at 01.04.12** | **Additions** | **Deletions** | **Forex** | **As at 31.03.13** | **As at 01.04.12** | **For the Year** | **Deletions** | **Forex** | **As at 31.03.13** | **As at 31.03.13** | **As at 31.03.12** |
| Land | 563 | - | - | 37 | 600 | - | - | - | - | - | 600 | 563 |
| Building | 4,280 | 147 | - | 294 | 4,721 | 241 | 277 | - | 33 | 552 | 4,169 | 4,038 |
| Ancillary Structures | 122 | - | 122 | - | - | 17 | - | 17 | - | - | - | 105 |
| Plant & Machinery | 1,665 | 68 | - | 112 | 1,845 | 313 | 340 | - | 23 | 676 | 1,169 | 1,352 |
| Electrical Equipment | 7 | - | - | - | 7 | 4 | 3 | - | - | 7 | - | 3 |
| Lab Equipment | 59 | 11 | - | 4 | 74 | 22 | 24 | - | 1 | 47 | 27 | 37 |
| Office Equipment | 105 | 10 | - | 10 | 125 | 36 | 67 | - | 7 | 110 | 15 | 68 |
| Furniture & Fixtures | 27 | - | - | 7 | 34 | 16 | 17 | - | 1 | 34 | - | 12 |
| Computers | 166 | - | - | 11 | 177 | 79 | 56 | - | 4 | 139 | 38 | 87 |
| **Total Tangible Assets (A)** | **6,993** | **237** | **122** | **475** | **7,585** | **728** | **784** | **17** | **69** | **1,565** | **6,018** | **6,265** |
| Intangibles | 3,236 | 148 | - | 216 | 3,600 | 651 | 718 | - | 42 | 1,412 | 2,188 | 2,585 |
| **Total Intangible Assets (B)** | **3,236** | **148** | - | **216** | **3,600** | **651** | **718** | **-** | **42** | **1,412** | **2,188** | **2,585** |
| **TOTAL (A+B)** | **10,229** | **384** | **122** | **691** | **11,183** | **1,379** | **1,502** | **17** | **112** | **2,976** | **8,206** | **8,850** |
| Previous year | 8,818 | 505 | - | 906 | 10,229 | 6 | 1,294 | - | 78 | 1,379 | 8,850 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 2,441 | 1,694 |
| Work-in-progress | 220 | 603 |
| Finished goods | 223 | 446 |
| Packing materials | 469 | 234 |
| | **3,353** | **2,977** |
| **2.8 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Receivables from holding company and other group companies | 959 | - |
| | 959 | - |
| *Less*: Provision for doubtful debts | - | - |
| | **959** | **-** |
| **2.9 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 193 | 326 |
| | **193** | **326** |
| **2.10 : Short term loans and advances** | | |
| **Unsecured** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 2 | 233 |
| Prepaid expenses | 87 | 16 |
| Other Advances | - | 19 |
| | **89** | **268** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | | For the year ended 31 March 2013 | | For the year ended 31 March 2012 | |
|---|---|---|---|---|---|
| **2.11 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | | |
| *Net (increase) / decrease in stock* | | | | | |
| *Opening* | Work-in-process | 603 | | 1 | |
| | Finished goods | 446 | 1,048 | 1,458 | 1,459 |
| *Closing* | Work-in-process | 220 | | 603 | |
| | Finished goods | 223 | 443 | 446 | 1,049 |
| *Net (increase)* | | | **605** | | **410** |
| **2.12 : Employee benefits expense** | | | | | |
| Salaries, wages and bonus | | | 4,300 | | 3,422 |
| Contribution to provident and other funds | | | 242 | | 105 |
| Staff welfare expenses | | | 617 | | 243 |
| | | | **5,159** | | **3,770** |
| **2.13 : Other expense** | | | | | |
| Consumption of Stores and spare parts | | | 550 | | 119 |
| Legal and professional | | | 373 | | 124 |
| Carriage outward | | | 50 | | 27 |
| Rates and taxes | | | 202 | | 306 |
| Other selling expenses | | | 1 | | - |
| Repairs and maintenance | | | | | |
| | Buildings | | 567 | | 320 |
| | Plant and machinery | | 314 | | 304 |
| | Others | | 637 | | 539 |
| Power and fuel | | | 742 | | 654 |
| Travelling and conveyance | | | 37 | | 11 |
| Communication | | | 41 | | 1,822 |
| Insurance | | | 143 | | 113 |
| Foreign exchange loss, net | | | - | | 3 |
| Printing and stationery | | | 82 | | 45 |
| Bank charges | | | 2 | | - |
| Advertisements | | | 1 | | - |
| Miscellaneous | | | 33 | | 205 |
| | | | **3,775** | | **4,592** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.14: Commitments and contingent liabilities**

The value of commitments / contingent liabilities as at 31 March 2013 is ₹ 332 (previous year: ₹ 81).

**2.15: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in other current liabilities) | | |
| | Dr. Reddy's Laboratories Inc | - | 768 |
| | Dr. Reddy's Laboratories Louisiana LLC | 11 | - |
| ii. | Due from related parties (included in trade receivables) | | |
| | Dr. Reddy's Laboratories Inc | 959 | - |

**2.16:** The tax expense for the Company is computed and presented together with the parent Company's (Dr. Reddy's Laboratories Inc.) financial as per the tax laws of United States.

**2.17: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.18:** The Company incorporated in USA, is a 100% subsidiary of Dr. Reddy's Laboratories Inc.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**G.V. Prasad**
Director

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit/ (Loss) for the period after taxation | 8,682 | (29,616) |
| Balance brought forward | (19,048) | 10,568 |
| Balance carried forward to Balance Sheet | (10,366) | (19,048) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place: Hyderabad | **Satish Reddy** | **Abhijit Mukerjee** |
| Date: 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's New Zealand Limited**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 328 | 328 |
| Reserves and surplus | 2.2 | 94,856 | 86,174 |
| | | **95,184** | **86,502** |
| **Current liabilities** | | | |
| Trade payables | 2.3 | 47,939 | 31,562 |
| Other current liabilities | 2.4 | 1,411 | 2,829 |
| | | **49,350** | **34,391** |
| | **TOTAL** | **144,534** | **120,893** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.5 | 151 | 245 |
| Deferred tax assets, net | 2.15 | 507 | 389 |
| | | **658** | **634** |
| **Current assets** | | | |
| Inventories | 2.6 | 40,175 | 34,345 |
| Trade receivables | 2.7 | 11,972 | 48,387 |
| Cash and bank balances | 2.8 | 88,217 | 35,904 |
| Short term loans and advances | 2.9 | 3,512 | 1,624 |
| | | **143,876** | **120,260** |
| | **TOTAL** | **144,534** | **120,893** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Abhijit Mukerjee**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 123,415 | 223,725 |
| Other income | 2.10 | 5,695 | 470 |
| **Total revenue** | | **129,110** | **224,195** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 97,125 | 91,950 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.11 | (5,830) | 82,804 |
| Employee benefits expense | 2.12 | 6,028 | 9,563 |
| Finance costs | 2.13 | - | 127 |
| Depreciation and amortization expense | 2.6 | 162 | 30,857 |
| Other expenses | 2.14 | 23,869 | 37,756 |
| **Total expenses** | | **121,354** | **253,057** |
| **Profit / (Loss) before tax** | | **7,756** | **(28,862)** |
| Tax expense | | | |
| Current tax | | (843) | 1,138 |
| Deferred tax | | (83) | (384) |
| **Profit / (Loss) for the year** | | **8,682** | **(29,616)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Abhijit Mukerjee**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | Years |
|---|---|
| Furniture, fixtures and office equipment | 3 to 5 |

**e) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**f) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**h) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 10,000 (previous year 10,000) shares of NZD 1 each | 328 | 328 |
| **Issued** | | |
| 10,000 (previous year 10,000) shares of NZD 1 each | 328 | 328 |
| **Subscribed and paid-up** | | |
| 10,000 (previous year 10,000) shares of NZD 1 each | 328 | 328 |
| | **328** | **328** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 10,000 | 328 | 10,000 | 328 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 10,000 | 328 | 10,000 | 328 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of NZD 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories SA | 10,000 | 100 | 10,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 194 | 194 |
| Additions / (deductions) during the year | - | - |
| | 194 | 194 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 105,028 | 94,477 |
| Additions / (deductions) during the year | - | 10,551 |
| | 105,028 | 105,028 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (19,048) | 10,568 |
| Add: Current year profit / (loss) | 8,682 | (29,616) |
| Balance carried forward | (10,366) | (19,048) |
| | **94,856** | **86,174** |
| **2.3 : Trade Payables** | | |
| Payables to holding company and other group companies | 42,017 | 29,975 |
| Payables to others | 5,922 | 1,587 |
| | **47,939** | **31,562** |
| **2.4 : Other current liabilities** | | |
| Accrued expenses | 1,254 | 1,264 |
| Due to statutory authorities | 157 | 196 |
| Other current liabilities | - | 1,369 |
| | **1,411** | **2,829** |

## Note 2 : Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.12 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Furniture and Fixtures | 485 | 68 | - | - | 553 | 240 | 162 | - | - | 402 | 151 | 245 |
| **Total Tangible Assets (A)** | **485** | **68** | **-** | **-** | **553** | **240** | **162** | **-** | **-** | **402** | **151** | **245** |
| Intangibles | 105,013 | - | - | - | 105,013 | 105,013 | - | - | - | 105,013 | - | - |
| **Total Intangible Assets (B)** | **105,013** | **-** | **-** | **-** | **105,013** | **105,013** | **-** | **-** | **-** | **105,013** | **-** | **-** |
| **TOTAL (A+B)** | **105,498** | **68** | **-** | **-** | **105,566** | **105,253** | **162** | **-** | **-** | **105,415** | **151** | **245** |
| Previous year | 93,929 | 11,705 | 614 | - | 106,498 | 75,423 | 30,830 | - | - | 106,253 | 245 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6: Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade | 40,175 | 34,345 |
| | **40,175** | **34,345** |
| **2.7 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 11,972 | 26,140 |
| Receivables from holding company and other group companies | - | 22,247 |
| | 11,972 | 48,387 |
| *Less*: Provision for doubtful debts | - | - |
| | **11,972** | **48,387** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | 8 | 7 |
| Bank balances | | |
| In current accounts | 88,209 | 35,897 |
| | **88,217** | **35,904** |
| **2.9 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Staff loans and advances | - | 42 |
| Advance tax, net of provision for income taxes | 2,875 | 1,582 |
| Other Advances | 637 | - |
| | **3,512** | **1,624** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other income** | | |
| Interest income | 610 | 470 |
| Foreign exchange gain, net | 5,085 | - |
| | **5,695** | **470** |
| **2.11 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Stock-in-trade | 34,345 | 117,149 |
| *Closing* | | |
| Stock-in-trade | 40,175 | 34,345 |
| *Net (increase)* | **(5,830)** | **82,804** |
| **2.12 : Employee benefits expense** | | |
| Salaries, wages and bonus | 5,916 | 9,240 |
| Contribution to provident and other funds | 62 | 79 |
| Staff welfare expenses | 50 | 244 |
| | **6,028** | **9,563** |
| **2.13 : Finance costs** | | |
| Interest Expenses | - | 127 |
| | **-** | **127** |
| **2.14 : Other expense** | | |
| Legal and professional | 2,373 | 3,406 |
| Carriage outward | 317 | 794 |
| Rates and taxes | - | 99 |
| Other selling expenses | 15,767 | 19,609 |
| Repairs and maintenance | | |
| Others | - | 39 |
| Travelling and conveyance | 122 | 877 |
| Communication | 352 | 939 |
| Rent | 2,353 | 2,052 |
| Insurance | - | 506 |
| Foreign exchange loss, net | - | 826 |
| Printing and stationery | 307 | 1,012 |
| Bank charges | 147 | 141 |
| Miscellaneous | 2,131 | 7,456 |
| | **23,869** | **37,756** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.15: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Inventories | 576 | 415 |
| Other Current assets | 226 | 226 |
| Fixed assets | 2 | 1 |
| Other Current Liabilities | (297) | (253) |
| **Deferred Tax Asset, Net** | **507** | **389** |

**2.16: Related party Disclosures**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in Trade Receivables): | | |
| | Dr. Reddy's Laboratories SA | - | 22,247 |
| ii. | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy's Laboratories Limited | 41,713 | 29,975 |
| | Dr. Reddy's Laboratories (Australia) Pty. Limited | 304 | - |

**2.17: Commitments and contingent liabilities**

There were no Commitments / contingent liabilities as at 31 March 2013 (Previous year ₹ 22,550).

**2.18: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.19:** The Company incorporated in New Zealand, is a 100% subsidiary of Dr. Reddy's Laboratories SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Abhijit Mukerjee**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 4th Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period | (14) | (15) |
| Balance Brought forward | (195) | (180) |
| Balance Carried forward to Balance Sheet | (209) | (195) |

**Operations**

The Company did not have any operation during the year.

**Dividend**

Your Directors do not recommend any dividend for the financial year ending 31 March 2013.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Directors Responsibility statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2012-13 and of net loss of the company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Directors**

Mr. G V Prasad, retires by rotation at the ensuing Annual General Meeting scheduled on 29 July 2013 and being eligible seeks re-appointment. Your Directors recommends his re-appointment for your approval at the ensuing AGM.

Mr. Umang Vohra resigned from the Board of Directors of the Company and ceases to a Director of the Company with effect from 11 February 2013. The Board accorded its deep appreciation for the services rendered by him during his term.

The Board of Directors had appointed Mr. Saumen Chakraborty as an Additional Director on the Board of Directors of the Company on 11 February 2013. He will hold this office till the conclusion of the 4th Annual General Meeting of the Company. Requisite notice under Section 257 of the Companies Act, 1956 has been received from a member proposing his appointment. It is proposed to appoint him as a Director of the Company liable to retire by rotation. The resolution for the same has been included in the notice of the 4th Annual General Meeting of the Company.

**Auditors**

The Statutory Auditors of the Company M/s. A. Ramachandra Rao & Co., Chartered Accountants, retire at the ensuing 4th Annual General Meeting and have confirmed their eligibility and willingness to accept office of auditors, if re-appointed. The Board of Directors recommend re-appointment of M/s. A. Ramachandra Rao & Co., Chartered Accountants as Statutory Auditors of the Company for the financial year 2013-14 for shareholder's approval.

**Particulars of Employees**

There are no employees who are drawing salary more than the amount as specified under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time. Hence the relevant provisions are not applicable to your Company.

**Conservation of energy, research and developments, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgements**

Your Directors place on record their sincere appreciation for support and co-operation extended by all the concerned to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **Saumen Chakraborty** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

To
**The Members of**
M/s. Dr Reddy's Pharma SEZ Ltd
Hyderabad

We have audited the accompanying financial statements of **Dr Reddy's Pharma SEZ Ltd** which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

01. 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 India:

    a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

    b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

    c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

02. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

03. As required by section 227(3) of the Act, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books

c) the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

d) in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **A. Ramachandra Rao &Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## ANNEXURE TO THE AUDITORS' REPORT

(Of even date referred to in Para (2) of our Report)

i. a) The Company does not have any fixed assets and hence para 4(1)(a) to (c) are not applicable.

ii. a) The company does not have any inventories and as such verification of stocks does not arise

b) In view of the above, the clauses 4(ii)(c) are not applicable to the company

iii. a) the company has not granted or taken any loans, secured or unsecured, from or to companies, firms or other parties covered in the register maintained u/s 301 of the Act during the year.

b) In view of the above, the sub-clauses (b), 4(iii)(c), and 4(iii)(d), are not applicable to the company.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets.The Company does not have any purchase of inventory and also for the sale of goods . During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

v. In our opinion, and according to the information and explanations given to us, the company has not entered into any transactions referred to in section 301 of the Act and hence clause 4(v)(b) is not applicable to the company for the year;

vi. Based on the information provided to us, in our opinion, the Company has not accepted any Deposits from the public during the year and hence, in our opinion, the Clause 4(vi) is not applicable to the company for the year;

vii. In our opinion, the company has an internal audit system to commensurate with its size and nature of its business.

viii. We are of the opinion, based on the information provided to us, that the Central Government has not prescribed any accounts and records, which are required to be maintained under section 209(1)(d) of the Act .

ix. a) According to the records of the company, the company is regular in depositing the undisputed statutory dues including Sales tax, Income-tax, Customs duty, Excise duty and Employees State Insurance and Provident Fund and cess, investor education fund with the appropriate authorities. We have been informed that the company is not liable to pay Wealth Tax. We have been informed that the provisions of wealth tax are not applicable to the company;

b) According to the information and explanations given to us, there are no dues of sales tax/income tax/ customs duty/Wealth tax /excise duty/cess to be deposited on account of any dispute;

c) Further, since the Central government has till date not prescribed the amount of cess payable under section 441A of the Companies act 1956,we are not in a position to comment upon the regularity or otherwise of the company in depositing the same.

x. In our opinion the accumulated losses of the company are not more than fifty percent of its net worth The Company has incurred cash losses during the financial year covered by our audit and in the immediately preceding financial year.

xi. Based on the information provided and explanation given to us, we are of the opinion that the company has not borrowed any terms loans from any banks and hence the sub clause (xi) is not applicable to the company for the year.

xii. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a Chit fund or Nidhi / Mutual Benefit Fund / Society and hence clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.

xiv. Based on the information given to us, the Company has not dealt or traded in shares, securities, debentures or other investments during the year.

xv. Based on the information provided to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.

xvi. According to the information and explanations given to us, the company has not applied any term loans during the year and hence clause 4(xvi) of the order is not applicable to the company.

xvii. According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment;

xviii. Based on the information provided and explanations offered, during the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 and hence sub clause (xvii) of the order is not applicable to the company for the year.

xix. The Company has not issued any debentures and not created any securities or charges in respect of any debentures.

xx. The Company has not raised any money by way of Public Issue during the year.

xxi. In our opinion and according to the information provided and explanations offered to us, no fraud on or by the Company has been noticed or reported during the year.

For **A. Ramachandra Rao &Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 500 | 500 |
| Reserves and surplus | 2.2 | (209) | (195) |
| | | **291** | **305** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 27 | 19 |
| | **TOTAL** | **319** | **324** |
| **ASSETS** | | | |
| **Non-current assets** | | - | - |
| **Current assets** | | | |
| Cash and bank balances | 2.4 | 319 | 324 |
| | **TOTAL** | **319** | **324** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | - | - |
| Total Revenue | | **-** | **-** |
| **Expenses** | | | |
| Other expenses | 2.5 | 14 | 15 |
| Total expenses | | **14** | **15** |
| **Loss before exceptional and extraordinary items and tax** | | **(14)** | **(15)** |
| Exceptional items | | - | - |
| **Loss before extraordinary items and tax** | | **(14)** | **(15)** |
| Extraordinary Items | | - | - |
| **Loss before tax** | | **(14)** | **(15)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Loss for the year** | | **(14)** | **(15)** |
| **Earnings per share** | | | |
| Basic - Par value ₹ 10 per share | 2.6 | (0.27) | (0.30) |
| Diluted - Par value ₹ 10 per share | | (0.27) | (0.30) |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Cash Flow Statement

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss for the year | (14) | (15) |
| Operating profit before working capital changes | (14) | (15) |
| Increase/(Decrease) in Other Current Liabilities | 9 | (161) |
| **Cash used in Operations** | (5) | (176) |
| Less: income tax paid | - | - |
| **Net cash used in operating activities** | **(5)** | **(176)** |
| **Cash flows From/(Used In) investing activities** | **-** | **-** |
| **Cash flows From/(Used In) financing activites** | - | - |
| **Net decrease in cash & bank balances** | **(5)** | **(176)** |
| Cash & bank balances at the beginning of the year | 324 | 500 |
| **Cash & bank balances at the end of the year** | **319** | **324** |

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation

The financial statements have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956. The financial statements are rounded off to the nearest thousands.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees Thousands, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Fixed assets, depreciation and amortisation

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Land is not depreciated. Depreciation on other fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the companies Act, 1956 or based on the useful life of the assets as estimated by Management whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

### d) Income-tax expense

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**e) Earnings per share**

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares.

**f) Provisions and contingent liabilities**

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

**g) Investments**

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Revenue recognition**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.

## Note 2: Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share Capital :** | | |
| **Authorised** | | |
| 1,000,000 (previous year 1,000,000) equity shares of ₹ 10/- each | 10,000 | 10,000 |
| **Issued, Subscribed & Paid up:** | | |
| 50,000 (previous year 50,000) Equity Shares of ₹ 10/- each fully paid up | 500 | 500 |
| | **500** | **500** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | Amount | No. of shares | Amount |
| Number of shares at the beginning of the period | 50,000 | 500 | 50,000 | 500 |
| Issued during the period | - | - | - | - |
| Outstanding at the end of the period | **50,000** | **500** | **50,000** | **500** |

**(b) Terms/rights attached to shares**

The company has only one class of equity share having a par value of ₹ 10/- per share . Each holder of equity share is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | % holding in the class | No. of shares | % holding in the class |
| Dr Reddy’s Laboratories Ltd | 49,994 | 99.99 | 49,994 | 99.99 |

## Note 2: Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance in profit and loss account brought forward | (195) | (180) |
| Add: Transfer from General Reserve | - | - |
| | (195) | (180) |
| Add: Current Year Loss | (14) | (15) |
| **Balance Carried Forward** | **(209)** | **(195)** |
| **2.3 : Other Current liabilities** | | |
| Outstanding Liabilities | 27 | 19 |
| | **27** | **19** |
| **2.4: Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 319 | 324 |
| | **319** | **324** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.5: Other expenses** | | |
| Rates & Taxes | 3 | 3 |
| Bank charges | - | 1 |
| Auditors' remuneration | 11 | 11 |
| | **14** | **15** |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.6 : Earnings per share** | | |
| Loss for the year | (14) | (15) |
| **Shares:** | | |
| Weighted average number of equity shares outstanding during the year - Basic | 50,000 | 50,000 |
| Weighted average number of equity shares outstanding during the year - Diluted | 50,000 | 50,000 |
| Basic Earnings / (Loss) in ₹ per share | (0.27) | (0.30) |
| Diluted Earnings / (Loss) in ₹ per share | (0.27) | (0.30) |

**2.7 : Comparitive Figures**

Previous year's figures have been regrouped / reclassified wherever necessary, to conform to current year presentation.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (167,073) | (162,740) |
| Balance brought forward | (666,278) | (503,538) |
| Balance carried forward to Balance Sheet | (833,351) | (666,278) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Sameer Natu** Director

**Stanislao Carlo Caputo** Director

Place : Hyderabad
Date : 10 May 2013

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Srl,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 6,234 | 6,234 |
| Reserves and surplus | 2.2 | (861,672) | (680,710) |
| | | **(855,438)** | **(674,476)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 811,702 | 748,579 |
| Other long term liabilities | 2.4 | 6,756 | 7,029 |
| | | **818,458** | **755,608** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 48,269 | 30,411 |
| Other current liabilities | 2.4 | 160,741 | 188,559 |
| | | **209,010** | **218,970** |
| | **TOTAL** | **172,030** | **300,102** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 763 | 1,133 |
| Intangible assets | 2.6 | - | 24,900 |
| | | **763** | **26,033** |
| **Current assets** | | | |
| Inventories | 2.7 | 8,680 | 47,308 |
| Trade receivables | 2.8 | 84,117 | 149,105 |
| Cash and bank balances | 2.9 | 56,994 | 54,321 |
| Short term loans and advances | 2.10 | 21,476 | 23,335 |
| | | **171,267** | **274,069** |
| | **TOTAL** | **172,030** | **300,102** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**Sameer Natu**
Director

**Stanislao Carlo Caputo**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 253,714 | 284,162 |
| Other operating revenues | | 10,250 | 299 |
| **Revenue from operations** | | **263,964** | **284,461** |
| Other income | 2.11 | 607 | 865 |
| **Total revenue** | | **264,571** | **285,326** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 138,262 | 167,630 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.12 | 38,628 | 2,089 |
| Employee benefits expense | 2.13 | 29,386 | 39,711 |
| Depreciation and amortization expense | 2.6 | 9,375 | 7,232 |
| Other expenses | 2.14 | 199,039 | 231,404 |
| **Total expenses** | | **414,690** | **448,066** |
| **Profit / (Loss) before exceptional items and tax** | | **(150,119)** | **(162,740)** |
| Exceptional items | | | |
| - Impairment of intangibles | | 16,954 | - |
| **Profit / (Loss) before tax** | | **(167,073)** | **(162,740)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(167,073)** | **(162,740)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**Sameer Natu**
Director

**Stanislao Carlo Caputo**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible ixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Computer equipment | 3 |

**e) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Intangibles (including product related intangibles) | 13 |

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.  Contingent assets are not recognised in the financial

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**k) Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets (Cash Generating Unit or CGU) that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its net selling price.

If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the statement of profit and loss. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of amortised historical cost.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 99,000 (previous year 99,000) shares of Euro 1 each | 6,234 | 6,234 |
| **Issued** | | |
| 99,000 (previous year 99,000) shares of Euro 1 each | 6,234 | 6,234 |
| **Subscribed and paid-up** | | |
| 99,000 (previous year 99,000) shares of Euro 1 each | 6,234 | 6,234 |
| | **6,234** | **6,234** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 99,000 | 6,234 | 99,000 | 6,234 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **99,000** | **6,234** | **99,000** | **6,234** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Reddy Pharma Italia S.p.A. | 99,000 | 100 | 99,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (27,474) | 11,394 |
| Additions / (deductions) during the year | (13,889) | (38,868) |
| | (41,363) | (27,474) |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 13,042 | - |
| Additions / (deductions) during the year | - | 13,042 |
| | 13,042 | 13,042 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (666,278) | (503,538) |
| Add: Current year loss | (167,073) | (162,740) |
| Balance carried forward | (833,351) | (666,278) |
| | **(861,672)** | **(680,710)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 811,702 | 748,579 |
| | **811,702** | **748,579** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 6,756 | 7,029 |
| | **6,756** | **7,029** |
| **b) Other current liabilities** | | |
| Due to holding company and other group companies | 77,481 | 89,553 |
| Accrued expenses | 48,569 | 49,743 |
| Due to statutory authorities | 2,411 | - |
| Other current liabilities | 32,280 | 49,263 |
| | **160,741** | **188,559** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | 18,562 | 30,411 |
| Payables to others | 29,707 | - |
| | **48,269** | **30,411** |

## Note 2 : Notes to financial statements (Continued)

### 2.6: Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Amortisation / Depreciation / Impairment | | | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Impair-ment | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Computers | 2,854 | 190 | - | 67 | 3,111 | 1,721 | 589 | - | - | 38 | 2,348 | 763 | 1,133 |
| **Total Tangible Assets (A)** | **2,854** | **190** | **-** | **67** | **3,111** | **1,721** | **589** | **-** | **-** | **38** | **2,348** | **763** | **1,133** |
| Product related intangible | 125,955 | - | - | 2,950 | 128,905 | 102,166 | 8,786 | 15,634 | - | 2,319 | 128,905 | - | 23,789 |
| Other Intangibles | 8,751 | - | - | 362 | 9,113 | 7,640 | - | 1,320 | - | 153 | 9,113 | - | 1,111 |
| **Total Intangible Assets (B)** | **134,706** | **-** | **-** | **3,312** | **138,018** | **109,806** | **8,786** | **16,954** | **-** | **2,472** | **138,018** | **-** | **24,900** |
| **TOTAL (A+B)** | **137,560** | **190** | **-** | **3,379** | **141,129** | **111,527** | **9,375** | **16,954** | **-** | **2,509** | **140,365** | **763** | **26,033** |
| Previous year | 122,255 | 7,852 | - | 7,098 | 137,560 | 97,165 | 7,232 | - | - | 7,130 | 111,527 | 26,033 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade | 8,680 | 47,308 |
| | **8,680** | **47,308** |
| **2.8 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 31,266 | - |
| Considered doubtful | 36,488 | 31,242 |
| Other debts | | |
| Considered good | 52,851 | 138,104 |
| Receivables from holding company and other group companies | - | 11,001 |
| | 120,605 | 180,347 |
| *Less*: Provision for doubtful debts | (36,488) | (31,242) |
| | **84,117** | **149,105** |
| **2.9 : Cash and bank balances** | | |
| Cash on hand | 43 | 29 |
| Bank balances | | |
| In current accounts | 39,577 | 20,358 |
| Bank deposits | 17,374 | 33,934 |
| | **56,994** | **54,321** |
| **2.10 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 1,207 | 1,179 |
| Balances with Statutory Agencies | 15,939 | 19,881 |
| Prepaid expenses | 2,617 | 314 |
| Other Advances | 1,713 | 1,961 |
| | **21,476** | **23,335** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.11 : Other income** | | |
| Interest income | 607 | 556 |
| Foreign exchange gain, net | - | 309 |
| | **607** | **865** |
| **2.12 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| Opening | | |
| Stock in trade | 47,308 | 49,397 |
| *Closing* | | |
| Stock in trade | 8,680 | 47,308 |
| *Net (increase) / decrease in stock* | **38,628** | **2,089** |
| **2.13 : Employee benefits expense** | | |
| Salaries, wages and bonus | 28,549 | 38,932 |
| Staff welfare expenses | 837 | 779 |
| | **29,386** | **39,711** |
| **2.14 : Other expense** | | |
| Legal and professional | 46,578 | 56,088 |
| Carriage outward | 9,501 | 5,300 |
| Commision on Sales | 43,131 | 53,140 |
| Other selling expenses | 52,754 | 54,234 |
| Travelling and conveyance | 5,621 | 9,630 |
| Communication | 975 | 1,995 |
| Rent | 336 | - |
| Insurance | 485 | 523 |
| Foreign exchange loss, net | 447 | - |
| Provision - Advances & Debtors | 5,149 | 18,480 |
| Printing and stationery | 1,466 | 1,945 |
| Bank charges | 3,391 | 3,596 |
| Miscellaneous | 29,205 | 26,474 |
| | **199,039** | **231,404** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### 2.15: Related Party Transactions:

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i) | Due to related parties (included in Borrowings and Other liabilities): | | |
| | Dr. Reddy's Laboratories Limited | 65,916 | 8,455 |
| | Dr. Reddys Pharma Italia S.p.A. | 823,267 | 829,677 |
| ii) | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy's Laboratories Limited | 18,562 | 30,411 |
| iii) | Due from related parties (included in Trade Receivables): | | |
| | Dr. Reddys Pharma Italia S.p.A. | - | 11,001 |

### 2.16: Commitments and contingent liabilities

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

### 2.17: Impairment of Intangibles

Based on the business performance and expected cash flows from its business, the Company carried out an impairment test of its product related intangibles and recorded an impairment loss of ₹ 16,954 during the year ended 31 March 2013.

### 2.18: Comparative figures

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.19:** The Company, incorporated under the laws of Italy, is a 100% subsidiary of Reddy Pharma Italia S.p.A.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Sameer Natu**
Director

**Stanislao Carlo Caputo**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (17,198) | (29,843) |
| Balance brought forward | (30,084) | (241) |
| Balance carried forward to Balance Sheet | (47,282) | (30,084) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Jayadeep Shukla**
General Manager

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr.Reddy's Venezuela, C.A**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 58,316 | 4,700 |
| Reserves and surplus | 2.2 | (47,282) | (30,084) |
| | | **11,034** | **(25,384)** |
| **Current liablities** | | | |
| Short term borrowings | 2.3 | 6 | 33,954 |
| Trade payables | 2.4 | 145 | 199 |
| Other current liabilities | 2.5 | 4,764 | 27 |
| Short term provisions | 2.6 | 55 | - |
| | | **4,970** | **34,180** |
| | **TOTAL** | **16,004** | **8,796** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Trade receivables | 2.7 | 5,487 | - |
| Cash and bank balances | 2.8 | 10,173 | 8,698 |
| Short term loans and advances | 2.9 | 336 | 98 |
| Other current assets | 2.10 | 8 | - |
| | | **16,004** | **8,796** |
| | **TOTAL** | **16,004** | **8,796** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Jayadeep Shukla**
General Manager

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 5,444 | - |
| **Total revenue** | | **5,444** | **-** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 4,324 | - |
| Employee benefits expense | 2.11 | 6,618 | 316 |
| Finance costs | 2.12 | 2,176 | 27,658 |
| Other expenses | 2.13 | 9,524 | 1,869 |
| **Total expenses** | | **22,642** | **29,843** |
| **Profit / (Loss) before tax** | | **(17,198)** | **(29,843)** |
| Tax expense | | - | - |
| **Profit / (Loss) for the year** | | **(17,198)** | **(29,843)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Jayadeep Shukla**
General Manager

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented under the historical cost convention on the accrual basis of accounting in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**c) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**e) Provisions and contingentliabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**f) Revenue recognition**

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Issued*** | | |
| 10,633 (previous year 1000) Equity shares of VEB 430 each | 58,316 | 4,700 |
| **Subscribed and paid-up** | | |
| 10,633 (previous year 1000) Equity shares of VEB 430 each | 58,316 | 4,700 |
| | **58,316** | **4,700** |

* No concept of authorised share capital in this company

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 1,000 | 4,700 | 1,000 | 4,700 |
| Add: Share issued during the year | 9,633 | 53,616 | - | - |
| Number of shares outstanding at the end of the year | 10,633 | 58,316 | 1,000 | 4,700 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of VEB 430 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories SA | 10,623 | 99.91 | 990 | 99.00 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (30,084) | (241) |
| Add: Current year loss | (17,198) | (29,843) |
| | **(47,282)** | **(30,084)** |
| **2.3 : Short term borrowings** | | |
| ***Unsecured*** | | |
| Other short term loans | 6 | 33,954 |
| | **6** | **33,954** |
| **2.4 : Trade Payables** | | |
| Payables to others | 145 | 199 |
| | **145** | **199** |
| **2.5 : Other current liabilities** | | |
| Accrued expenses | 4,714 | - |
| Salary and bonus payable | 50 | - |
| Other current liabilities | - | 27 |
| | **4,764** | **27** |
| **2.6 : Short term provisions** | | |
| Allowance for sales returns | 55 | - |
| | **55** | **-** |
| **2.7 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 5,487 | - |
| | 5,487 | - |
| *Less*: Provision for doubtful debts | - | - |
| | **5,487** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 10,173 | 8,698 |
| | **10,173** | **8,698** |
| **2.9 : Short term loans and advances** | | |
| **Unsecured** | | |
| ***Considered good*** | | |
| Staff loans and advances | 336 | 98 |
| | **336** | **98** |
| **2.10 : Other Current Assets** | | |
| Other receivables from holding company and other group companies | 8 | - |
| | **8** | **-** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.11 : Employee benefits expense** | | |
| Salaries, wages and bonus | 6,456 | 300 |
| Staff welfare expenses | 162 | 16 |
| | **6,618** | **316** |
| **2.12 : Finance costs** | | |
| Interest Expenses | 2,176 | 27,658 |
| | **2,176** | **27,658** |
| **2.13 : Other expense** | | |
| Legal and professional | 500 | 476 |
| Rates and taxes | 653 | 76 |
| Foreign exchange loss, net | 8,075 | 1,041 |
| Printing and stationery | 158 | - |
| Bank charges | 31 | 194 |
| Miscellaneous | 107 | 82 |
| | **9,524** | **1,869** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.14: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013. (previous year: NIL)

**2.15: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in Other current assets) | | |
| | Dr. Reddy's Laboratories Ltd. | 8 | - |

**2.16: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.17:** The Company incorporated in Venezuela, is a subsidiary of Dr. Reddy's Laboratories SA, Switzerland.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Jayadeep Shukla**
General Manager

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit/ (Loss) for the period after taxation | 66,593 | (138,674) |
| Balance brought forward | (507,612) | (368,938) |
| Balance carried forward to Balance Sheet | (441,020) | (507,612) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

**Azhar Ibrahim**
Director

# AUDITORS' REPORT

**To**

**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories (Australia) Pty. Limited**, a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao &Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 35,126 | 35,126 |
| Reserves and surplus | 2.2 | (439,225) | (505,817) |
| | | **(404,099)** | **(470,691)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 540,778 | 475,013 |
| | | **540,778** | **475,013** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 288,447 | 162,070 |
| Other current liabilities | 2.5 | 107,704 | 102,157 |
| Short term provisions | 2.6 | 3,868 | 2,824 |
| | | **400,019** | **267,051** |
| | **TOTAL** | **536,698** | **271,373** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 193 | 473 |
| Intangible assets | 2.7 | 391 | 883 |
| Deferred tax assets, net | 2.20 | 102,158 | - |
| Long term loans and advances | 2.8 | 904 | 845 |
| | | **103,646** | **2,201** |
| **Current assets** | | | |
| Inventories | 2.9 | 100,589 | 51,783 |
| Trade receivables | 2.10 | 254,270 | 209,585 |
| Cash and bank balances | 2.11 | 76,191 | 7,804 |
| Short term loans and advances | 2.12 | 2,002 | - |
| | | **433,052** | **269,172** |
| | **TOTAL** | **536,698** | **271,373** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**Azhar Ibrahim**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 690,891 | 304,146 |
| Other operating revenues | | 3,642 | 4,611 |
| **Revenue from operations** | | **694,533** | **308,757** |
| Other income | 2.13 | 608 | 249 |
| **Total revenue** | | **695,141** | **309,006** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 482,532 | 189,225 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.14 | (48,806) | (16,295) |
| Employee benefits expense | 2.15 | 103,568 | 61,110 |
| Finance costs | 2.16 | 36,655 | 41,182 |
| Depreciation and amortization expense | 2.7 | 1,066 | 542 |
| Other expenses | 2.17 | 154,978 | 171,916 |
| **Total expenses** | | **729,993** | **447,680** |
| **Profit / (Loss) before tax** | | **(34,852)** | **(138,674)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | (101,445) | - |
| **Profit for the year** | | **66,593** | **(138,674)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**Azhar Ibrahim**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Electrical and office equipment (other than computer equipment) | 5 to 15 |

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management estimates the useful lives for the various intangible assets as follows:

| | **Years** |
|---|---|
| Goodwill | 5 |

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### g) Retirement benefits

Contributions payable to employee pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

### h) Foreign currency transactions, balances and translation of financial statements

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

### i) Revenue recognition

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

### j) Provisions and contingent liabilities

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**k) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 1,000,000 (previous year 1,000,000) ordinary shares of AUD 1 each | 35,126 | 35,126 |
| **Issued** | | |
| 1,000,000 (previous year 1,000,000) ordinary shares of AUD 1 each | 35,126 | 35,126 |
| **Subscribed and paid-up** | | |
| 1,000,000 (previous year 1,000,000) ordinary shares of AUD 1 each | 35,126 | 35,126 |
| | **35,126** | **35,126** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | Amount | No. of equity shares | Amount |
| Number of shares outstanding at the beginning of the period | 1,000,000 | 35,126 | 1,000,000 | 35,126 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **1,000,000** | **35,126** | **1,000,000** | **35,126** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of AUD 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | Amount | No. of Equity shares held | Amount |
| Dr. Reddy’s Laboratories Limited | 1,000,000 | 100 | 1,000,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 1,795 | 1,795 |
| Additions / (deductions) during the year | - | - |
| | 1,795 | 1,795 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (507,612) | (368,938) |
| Add: Current year profit / (loss) | 66,593 | (138,674) |
| Balance carried forward | (441,020) | (507,612) |
| | **(439,225)** | **(505,817)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 540,778 | 475,013 |
| | **540,778** | **475,013** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 246,307 | 126,131 |
| Payables to others | 42,140 | 35,939 |
| | **288,447** | **162,070** |
| **2.5 : Other current liabilities** | | |
| Due to holding company and other group companies | 91,474 | 84,965 |
| Accrued expenses | 9,288 | 7,686 |
| Due to statutory authorities | 3,773 | 9,503 |
| Other current liabilities | 3,169 | 3 |
| | **107,704** | **102,157** |
| **2.6 : Short term provisions** | | |
| Provision for employee benefits | 3,868 | 2,733 |
| FBT Payable | - | 91 |
| | **3,868** | **2,824** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Electrical and Office equipment | 1,019 | 294 | - | - | 1,313 | 546 | 574 | - | - | 1,120 | 193 | 473 |
| **Total Tangible Assets (A)** | **1,019** | **294** | **-** | **-** | **1,313** | **546** | **574** | **-** | **-** | **1,120** | **193** | **473** |
| Goodwill | 1,779 | - | - | - | 1,779 | 896 | 492 | - | - | 1,388 | 391 | 883 |
| **Total Intangible Assets (B)** | **1,779** | **-** | **-** | **-** | **1,779** | **896** | **492** | **-** | **-** | **1,388** | **391** | **883** |
| **Total (A+B)** | **2,798** | **294** | **-** | **-** | **3,092** | **1,442** | **1,066** | **-** | **-** | **2,508** | **584** | **1,356** |
| **Previous year** | 2,594 | 230 | 26 | - | 2,798 | 926 | 542 | 26 | - | 1,442 | 1,356 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 904 | 845 |
| | **904** | **845** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade | 100,589 | 51,783 |
| | **100,589** | **51,783** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Other debts | | |
| Considered good | 253,966 | 209,585 |
| Receivables from holding company and other group companies | 304 | - |
| | 254,270 | 209,585 |
| *Less*: Provision for doubtful debts | - | - |
| | **254,270** | **209,585** |
| **2.11 : Cash and bank balances** | | |
| Cash on hand | 14 | 124 |
| Bank balances | | |
| In current accounts | 76,177 | 7,680 |
| | **76,191** | **7,804** |
| **2.12 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Staff loans and advances | 436 | - |
| Prepaid expenses | 1,566 | - |
| | **2,002** | **-** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.13 : Other income** | | |
| Interest income | 608 | 249 |
| | **608** | **249** |
| **2.14 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Stock-in-trade | 51,783 | 35,488 |
| *Closing* | | |
| Stock-in-trade | 100,589 | 51,783 |
| *Net (increase) / decrease in stock* | **(48,806)** | **(16,295)** |
| **2.15 : Employee benefits expense** | | |
| Salaries, wages and bonus | 96,796 | 54,242 |
| Contribution to provident and other funds | 6,772 | 2,949 |
| Staff welfare expenses | - | 3,919 |
| | **103,568** | **61,110** |
| **2.16 : Finance costs** | | |
| Interest Expenses | 36,655 | 41,182 |
| | **36,655** | **41,182** |
| **2.17 : Other expense** | | |
| Legal and professional | 8,826 | 11,841 |
| Rates and taxes | - | 1 |
| Other selling expenses | 20,642 | 7,246 |
| Travelling and conveyance | 7,371 | 3,676 |
| Communication | 4,189 | 2,148 |
| Rent | 6,037 | 5,260 |
| Insurance | - | 119 |
| Foreign exchange loss, net | 37,763 | 68,447 |
| Printing and stationery | 1,897 | 972 |
| Bank charges | 239 | 144 |
| Advertisements | 8,130 | 1,808 |
| Miscellaneous | 59,884 | 70,254 |
| | **154,978** | **171,916** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### 2.18: Commitments and contingent liabilities

There were no commitments and contingent liabilities as at 31 March 2013 (Previous Year – Nil)

### 2.19: Related party disclosures

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in long term borrowings): Dr. Reddy's Laboratories Limited | 540,778 | 475,013 |
| ii. | Due to related parties (included in Trade Payables): Dr. Reddy's Laboratories Limited | 246,307 | 126,131 |
| iii. | Due to related parties (included in Other Current Liabilities): Dr. Reddy's Laboratories Limited | 91,474 | 84,965 |
| iv. | Due from related parties (included in Trade Receivables): Dr. Reddy's New Zealand Limited | 304 | - |

### 2.20: Deferred taxation

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Inventories | (1,308) | - |
| Losses carry forward | 96,972 | - |
| Fixed Assets | (4,850) | - |
| Other Current Liabilities | 11,344 | - |
| **Deferred Tax Asset, Net** | **102,158** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.21: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.22:** The Company, incorporated in Australia, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

| | | |
|---|---|---|
| *for* **A. Ramachandra Rao & Co.**<br>*Chartered Accountants*<br>ICAI FRN No. 002857S | *for* **and on behalf of the Board of Directors** | |
| **A. Ramachandra Rao**<br>*Partner*<br>Membership No. 9750 | **Satish Reddy**<br>Director | **Azhar Ibrahim**<br>Director |

Place : Hyderabad
Date : 10 May 2013

## DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit for the period after taxation | 3,556 | 4,115 |
| Balance brought forward | 8,107 | 3,992 |
| Buy back of shares | (7,452) | - |
| Balance carried forward to Balance Sheet | 4,211 | 8,107 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-12 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **V V Parsuram** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories (EU) Limited**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 7,230 | 7,231 |
| Reserves and surplus | 2.2 | 5,827 | 9,734 |
| | | **13,057** | **16,965** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 7,177 | 7,113 |
| | | **7,177** | **7,113** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 608 | 300 |
| Other current liabilities | 2.5 | 1,449 | 1,864 |
| Short term provisions | 2.6 | 449 | 648 |
| | | **2,506** | **2,812** |
| | **TOTAL** | **22,740** | **26,890** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 6,080 | 5,004 |
| Intangible assets | 2.7 | 406 | 478 |
| Capital work-in-progress | | 17 | 1,466 |
| Non current investments | 2.8 | 3,290 | 3,290 |
| Deferred tax assets, net | 2.21 | 218 | 134 |
| Long term loans and advances | 2.9 | 3 | 187 |
| | | **10,014** | **10,559** |
| **Current assets** | | | |
| Inventories | 2.10 | 1,367 | 903 |
| Trade receivables | 2.11 | 8,841 | 8,633 |
| Cash and bank balances | 2.12 | 1,816 | 5,892 |
| Short term loans and advances | 2.13 | 185 | 422 |
| Other current assets | 2.14 | 517 | 481 |
| | | **12,726** | **16,331** |
| | **TOTAL** | **22,740** | **26,890** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**V V Parsuram**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 10,326 | 10,476 |
| Service income | | 7 | 4 |
| License fees | | - | 4 |
| Other operating revenues | 2.15 | 1,419 | 1,257 |
| **Revenue from operations** | | **11,752** | **11,741** |
| Other income | 2.16 | 32 | 28 |
| **Total revenue** | | **11,784** | **11,769** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 1,256 | 987 |
| Purchase of stock-in-trade (traded goods) | | 459 | 500 |
| Changes in inventories of finished goods, work-in-progress and stock-in-trade | 2.17 | (440) | 262 |
| Employee benefits expense | 2.18 | 2,913 | 2,250 |
| Finance costs | 2.19 | 206 | 195 |
| Depreciation and amortization expense | 2.7 | 869 | 654 |
| Other expenses | 2.20 | 2,733 | 2,228 |
| **Total expenses** | | **7,996** | **7,076** |
| **Profit before tax** | | **3,788** | **4,693** |
| Tax expense | | | |
| Current tax | | 314 | 616 |
| Deferred tax | | (82) | (39) |
| **Profit for the year** | | **3,556** | **4,115** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*For* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**V V Parsuram**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | 25 |
| Plant and machinery | 3 to 15 |
| Computer equipment | 3 |

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Goodwill | 10 |

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**i) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**j) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**k) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**l) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 20,000,000 (previous year 20,000,000) shares of GBP 1 each | 15,833 | 15,833 |
| **Issued** | | |
| 9,131,928 (previous year 9,131,928) shares of GBP 1 each | 7,230 | 7,231 |
| **Subscribed and paid-up** | | |
| 9,131,928 (previous year 9,131,928) shares of GBP 1 each | 7,230 | 7,231 |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 9,133,290 | 7,231 | 9,133,290 | 7,231 |
| Less: Buy back of shares during the year | (1,362) | (1) | - | - |
| Number of shares outstanding at the end of the year | 9,131,928 | 7,230 | 9,133,290 | 7,231 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of GBP 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of shares | % holding in the class | No. of shares | % holding in the class |
| Dr. Reddy's Laboratories SA | 9,131,928 | 100 | 9,131,928 | 99.99 |

**(d) Aggregate number of shares bought back during the period of five years immediately preceding the reporting date.** **(Number of shares)**

| Particulars | As at 31 Mar 2013 | As at 31 Mar 2012 | As at 31 Mar 2011 | As at 31 Mar 2010 | As at 31 Mar 2009 |
|---|---|---|---|---|---|
| Ordinary shares of GBP 1 each | 1,362 | - | - | - | - |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 1,627 | 205 |
| Additions / (deductions) during the year | (11) | 1,422 |
| | 1,616 | 1,627 |
| ***Surplus*** | | |
| Balance at the beginning of the year | 8,107 | 3,992 |
| Less: Buy back of shares | (7,452) | - |
| Add: Current year profit | 3,556 | 4,115 |
| Balance carried forward | 4,211 | 8,107 |
| | **5,827** | **9,734** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 7,177 | 7,113 |
| | **7,177** | **7,113** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 563 | 211 |
| Payables to others | 45 | 89 |
| | **608** | **300** |
| **2.5 Other current liabilities** | | |
| Due to capital creditors | 66 | 181 |
| Accrued expenses | 483 | 482 |
| Sales and use tax payable | 329 | 298 |
| Other current liabilities | 571 | 903 |
| | **1,449** | **1,864** |
| **2.6 : Short term provisions** | | |
| Income tax payable | 449 | 648 |
| | **449** | **648** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.4.2012 | Additions | Deletions | Forex | As at 31.3.2013 | As at 01.4.2012 | For the year | Deletions | Forex | As at 31.3.2013 | As at 31.3.2013 | As at 31.3.2012 |
| Land | 570 | - | - | 5 | 575 | - | - | - | - | - | 575 | 570 |
| Building | 977 | 95 | - | 5 | 1,077 | 291 | 83 | - | (1) | 373 | 704 | 686 |
| Plant & Machinery | 5,944 | 1,768 | - | (21) | 7,691 | 2,211 | 695 | - | (10) | 2,896 | 4,795 | 3,733 |
| Computers | 80 | 1 | - | 1 | 82 | 65 | 11 | - | - | 76 | 6 | 15 |
| **Total Tangible Assets (A)** | **7,571** | **1,863** | **-** | **(10)** | **9,425** | **2,567** | **789** | **-** | **(11)** | **3,345** | **6,080** | **5,004** |
| Goodwill | 1,203 | - | - | 7 | 1,210 | 725 | 80 | - | (1) | 804 | 406 | 478 |
| Intangibles | 3,307 | - | - | 35 | 3,342 | 3,307 | - | - | 35 | 3,342 | - | - |
| **Total Intangible Assets (B)** | **4,510** | **-** | **-** | **42** | **4,552** | **4,032** | **80** | **-** | **34** | **4,146** | **406** | **478** |
| **TOTAL (A+B)** | **12,081** | **1,863** | **-** | **32** | **13,977** | **6,598** | **869** | **-** | **23** | **7,491** | **6,486** | **5,482** |
| Previous year | 10,559 | 636 | - | 886 | 12,081 | 5,201 | 654 | - | 743 | 6,598 | 5,482 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Non current investments** | | |
| Investments in Subsidiaries | 3,290 | 3,290 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | - | - |
| | **3,290** | **3,290** |
| **2.9 : Long term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | - | 186 |
| Security Deposits | 3 | 1 |
| | **3** | **187** |
| **2.10 : Inventories (Valued on weighted average basis)** | | |
| Raw materials | 150 | 148 |
| Work-in-progress | 708 | - |
| Finished goods | 487 | 755 |
| Packing materials | 22 | - |
| | **1,367** | **903** |
| **2.11 : Trade Receivables (Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 734 | 745 |
| Receivables from holding company and other group companies | 8,107 | 7,888 |
| | 8,841 | 8,633 |
| *Less*: Provision for doubtful debts | - | - |
| | **8,841** | **8,633** |
| **2.12 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,816 | 2,308 |
| In term deposit accounts | - | 3,584 |
| | **1,816** | **5,892** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.13 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | - | 1 |
| Balances with Statutory Agencies | 133 | 287 |
| Prepaid expenses | 52 | 134 |
| | **185** | **422** |
| **2.14 : Other current assets** | | |
| ***Considered good*** | | |
| Advances to holding company and other group companies | 43 | 4 |
| Interest Receivable | - | 6 |
| Other current assets | 474 | 471 |
| | **517** | **481** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.15 : Other operating revenue** | | |
| Royalty income | 544 | 568 |
| Miscellaneous income | 875 | 689 |
| | **1,419** | **1,257** |
| **2.16 : Other income** | | |
| Interest income | 32 | 28 |
| | **32** | **28** |
| **2.17 : Changes in inventories of finished goods, work-in-progress and stock-in-trade** | | |
| *Opening* | | |
| Finished goods | 755 | 1,017 |
| *Closing* | | |
| Work-in-progress | 708 | - |
| Finished goods | 487 | 755 |
| **Net (increase) / decrease** | **(440)** | **262** |
| **2.18 : Employee benefits expense** | | |
| Salaries, wages and bonus | 2,841 | 2,209 |
| Staff welfare expenses | 72 | 41 |
| | **2,913** | **2,250** |
| **2.19 : Finance costs** | | |
| Interest Expenses | 206 | 195 |
| | **206** | **195** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.20 : Other expense** | | |
| Consumption of Stores and spare parts | 68 | 31 |
| Legal and professional | 141 | 143 |
| Carriage outward | 91 | 80 |
| Rates and taxes | 116 | 85 |
| Other selling expenses | 390 | 375 |
| Repairs and maintenance | | |
| Buildings | 29 | 21 |
| Plant and machinery | 196 | 185 |
| Others | 653 | 524 |
| Power and fuel | 655 | 483 |
| Travelling and conveyance | 37 | 32 |
| Communication | 25 | 15 |
| Rent | 68 | 50 |
| Insurance | 88 | 68 |
| Foriegn exchange loss, net | 79 | 99 |
| Printing and stationery | 20 | 13 |
| Bank charges | 11 | 10 |
| Auditors' remuneration | | |
| Audit fees | 3 | 4 |
| Miscellaneous | 63 | 10 |
| | **2,733** | **2,228** |

**2.21 : Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax Assets / (liabilities)** | | |
| Inventories | 216 | 214 |
| Other Current Assets | (16) | 31 |
| Fixed assets | 18 | (64) |
| Other current liabilities | - | (47) |
| **Deferred Tax Asset, net** | **218** | **134** |

**2.22 : Commitments and contingent liabilities**

There were no commitments / contingent liabilities as on 31 March 2013 (Previous year: ₹ 35).

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.23 : Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in advances): | | |
| | Dr. Reddy’s Laboratories (UK) Ltd. | - | 186 |
| ii. | Due from related parties (included in Trade receivables): | | |
| | Chirotech Technology Limited | 7,960 | 6,641 |
| | Dr. Reddy’s Laboratories Limited | 23 | 6 |
| | Dr. Reddys Laboratories SA | 124 | 701 |
| | Dr. Reddys Laboratories Inc. | - | 540 |
| iii. | Due to related parties (included in Long Term Borrowings): | | |
| | Dr. Reddys Laboratories SA | 7,177 | 7,113 |
| iv. | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy’s Laboratories Limited | 23 | - |
| | Chirotech Technology Limited | 540 | 211 |
| v. | Due from related parties (included in Other Current Assets): | | |
| | Dr. Reddy’s Laboratories Limited | - | 4 |
| | Industrias Quimicas Falcon de Mexico, S.A. de CV | 43 | - |

**2.24:** During the year, the Company bought back its own shares (1,362 shares) from Dr. Reddy's Laboratories Limited, India on 26 March 2013.

**2.25: Comparative figures**

Previous year’s figures have been regrouped/ reclassified wherever necessary, to conform to current year’s classification.

**2.26:** The Company, incorporated in United Kingdom, is a 100% subsidiary of Dr. Reddy’s Laboratories SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**V V Parsuram**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit for the period after taxation | 1,530 | 1,667 |
| Balance brought forward | 5,571 | 3,904 |
| Balance carried forward to Balance Sheet | 7,101 | 5,571 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M V Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories (UK) Limited**., a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 1 | 1 |
| Reserves and surplus | 2.2 | 7,686 | 6,026 |
| | | **7,687** | **6,027** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 2 | 187 |
| Other long term liabilities | 2.4 | 576 | 773 |
| | | **578** | **960** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 1,056 | 2,655 |
| Other current liabilities | 2.4 | 1,772 | 1,728 |
| Short term provisions | 2.6 | 237 | 223 |
| | | **3,065** | **4,606** |
| | **TOTAL** | **11,330** | **11,594** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 1,922 | 2,158 |
| Deferred tax assets, net | 2.17 | 8 | 6 |
| | | **1,930** | **2,164** |
| **Current assets** | | | |
| Inventories | 2.8 | 537 | 2,513 |
| Trade receivables | 2.9 | 5,508 | 4,763 |
| Cash and bank balances | 2.10 | 3,090 | 1,666 |
| Short term loans and advances | 2.11 | 261 | 488 |
| Other current assets | 2.12 | 4 | - |
| | | **9,400** | **9,430** |
| | **TOTAL** | **11,330** | **11,594** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**M V Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 21,676 | 26,632 |
| Service income | | 5 | - |
| License fees | | 463 | 693 |
| Other operating revenues | | 13 | 3 |
| **Revenue from operations** | | **22,157** | **27,328** |
| Other income | 2.13 | 1 | 32 |
| **Total revenue** | | **22,158** | **27,360** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 10,816 | 17,282 |
| Purchase of stock-in-trade (traded goods) | | 146 | 532 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.14 | 1,951 | (585) |
| Employee benefits expense | 2.15 | 3,493 | 3,840 |
| Depreciation and amortization expense | 2.7 | 341 | 368 |
| Other expenses | 2.16 | 3,697 | 3,691 |
| **Total expenses** | | **20,444** | **25,128** |
| **Profit before tax** | | **1,714** | **2,232** |
| Tax expense | | | |
| Current tax | | 185 | 548 |
| Deferred tax | | (1) | 17 |
| **Profit for the year** | | **1,530** | **1,667** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M V Narasimham**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Plant and machinery | 3 to 15 |
| Electrical equipment | 5 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment | 3 to 5 |
| Computer equipment | 3 |

Tenants improvements are amortised over the primary period of lease.

**e) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**f) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**h) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*License fee*

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**i) Income tax expense**

Income tax expense comprises current tax and deferred tax charge or credit.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 1,000 (previous year 1,000) Equity shares of GBP 1 each | 1 | 1 |
| **Issued** | | |
| 1,000 (previous year 1,000) Equity shares of GBP 1 each | 1 | 1 |
| **Subscribed and paid-up** | | |
| 1,000 (previous year 1,000) Equity shares of GBP 1 each | 1 | 1 |
| | 1 | 1 |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 1,000 | 1 | 1,000 | 1 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 1,000 | 1 | 1,000 | 1 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of GBP 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories (EU) Limited | 1,000 | 100 | 1,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 456 | 286 |
| Additions / (deductions) during the year | 129 | 170 |
| | 585 | 456 |
| ***Surplus*** | | |
| Balance at the beginning of the year | 5,571 | 3,904 |
| Add: Current year profit | 1,530 | 1,667 |
| Balance carried forward | 7,101 | 5,571 |
| | **7,686** | **6,026** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 2 | 187 |
| | **2** | **187** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 576 | 773 |
| | **576** | **773** |
| **b) Other current liabilities** | | |
| Due to capital creditors | 278 | 272 |
| Salary and Bonus payable | 224 | 314 |
| Due to statutory authorities | 73 | 90 |
| Other current liabilities | 1,197 | 1,052 |
| | **1,772** | **1,728** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | 798 | 1,891 |
| Payables to others | 258 | 764 |
| | **1,056** | **2,655** |
| **2.6 : Short term provisions** | | |
| Income tax payable | 201 | 223 |
| Other Provisions | | |
| Allowance for sales returns | 36 | - |
| | **237** | **223** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Addition | Deletions | Forex | As at 31.03.13 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land | 152 | - | - | - | 152 | - | - | - | - | - | 152 | 152 |
| Building | 1,392 | - | - | - | 1,392 | 272 | 56 | - | - | 328 | 1,064 | 1,120 |
| Plant & Machinery | 1,993 | 62 | 27 | - | 2,028 | 1,200 | 206 | 27 | - | 1,379 | 650 | 793 |
| Tenants improvements | 173 | - | - | - | 173 | 163 | - | - | - | 163 | 9 | 9 |
| Furniture, Fixtures & Office Equipments | 210 | 2 | 46 | - | 167 | 150 | 39 | 31 | - | 158 | 9 | 60 |
| Computers | 221 | 55 | - | - | 275 | 197 | 40 | - | - | 237 | 38 | 23 |
| **Total Tangible Assets (A)** | **4,141** | **119** | **73** | - | **4,186** | **1,982** | **341** | **59** | - | **2,265** | **1,922** | **2,158** |
| Intangibles | 389 | - | - | - | 389 | 389 | - | - | - | 389 | - | - |
| **Total Intangible Assets (B)** | **389** | **-** | **-** | **-** | **389** | **389** | **-** | **-** | **-** | **389** | **-** | **-** |
| **TOTAL (A+B)** | **4,529** | **119** | **73** | **-** | **4,575** | **2,371** | **341** | **59** | **-** | **2,653** | **1,922** | **2,158** |
| Previous year | 4,454 | 94 | 19 | - | 4,529 | 2,007 | 368 | 4 | - | 2,371 | 2,158 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 5 | 3 |
| Work-in-progress | 10 | 709 |
| Finished goods | 333 | 1,015 |
| Stock-in-trade (in respect of goods acquired for trading) | - | 570 |
| Packing materials | 189 | 216 |
| | **537** | **2,513** |
| **2.9 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 69 | - |
| Considered doubtful | 6 | 53 |
| Other debts | | |
| Considered good | 5,439 | 4,763 |
| | 5,514 | 4,816 |
| *Less*: Provision for doubtful debts | (6) | (53) |
| | **5,508** | **4,763** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | 1 | 2 |
| Bank balances | | |
| In current accounts | 3,089 | 1,664 |
| | **3,090** | **1,666** |
| **2.11 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | - | 29 |
| Balances with Statutory Agencies | 245 | 389 |
| Prepaid expenses | 16 | 70 |
| | **261** | **488** |
| **2.12 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 4 | - |
| | **4** | **-** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | | For the year ended 31 March 2012 | |
|---|---|---|---|---|
| **2.13 : Other income** | | | | |
| Interest income | | 1 | | 3 |
| Profit on sale of fixed assets, net | | - | | 2 |
| Forign exchange gain, net | | - | | 27 |
| | | **1** | | **32** |
| **2.14 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | |
| *Net (increase) / decrease in stock* | | | | |
| *Opening* | | | | |
| Work-in-process | 709 | | 151 | |
| Finished goods | 1,015 | | 992 | |
| Stock in trade | 570 | 2,294 | 566 | 1,709 |
| *Closing* | | | | |
| Work-in-process | 10 | | 709 | |
| Finished goods | 333 | | 1,015 | |
| Stock in trade | - | 343 | 570 | 2,294 |
| *Net (increase)* | | **1,951** | | **(585)** |
| **2.15 : Employee benefits expense** | | | | |
| Salaries, wages and bonus | | 3,428 | | 3,744 |
| Staff welfare expenses | | 65 | | 96 |
| | | **3,493** | | **3,840** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.16 : Other expense** | | |
| Legal and professional | 1,736 | 1,196 |
| Carriage outward | 315 | 227 |
| Rates and taxes | 289 | 44 |
| Commision on Sales | 75 | 168 |
| Other selling expenses | 114 | 218 |
| Repairs and maintenance | | |
| Plant and machinery | 75 | 70 |
| Others | 119 | 281 |
| Power and fuel | 48 | 34 |
| Travelling and conveyance | 291 | 317 |
| Communication | 118 | 128 |
| Rent | 240 | 481 |
| Consumption of Stores and spare parts | - | 258 |
| Insurance | 81 | 67 |
| Foreign exchange loss, net | 89 | - |
| Printing and stationery | 45 | 54 |
| Bank charges | 8 | 8 |
| Advertisements | 8 | 8 |
| Miscellaneous | 46 | 131 |
| | **3,697** | **3,691** |

**2.17 : Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax Asset/(Liability)** | | |
| Trade receivables | 5 | (3) |
| Provisions | (23) | (23) |
| Inventory | (9) | (9) |
| Others Current Assets | (165) | (165) |
| Current Liabilities | (38) | (42) |
| Fixed assets | 238 | 247 |
| **Deferred tax asset, net** | **8** | **6** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.18: Related party disclosures**

The Company has following amounts due from/to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Trade Payables)<br>Dr. Reddy's Laboratories Ltd. | 798 | 1,891 |
| ii. | Due to related parties<br>(included in Long term borrowings):<br>Dr. Reddy's Laboratories (EU) Ltd. | 2 | 187 |
| iii. | Due from related parties<br>(included in other current assets):<br>Dr. Reddy's Laboratories Ltd. | 4 | - |

**2.19: Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.20: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to confirm to current year's classification.

**2.21:** The Company, incorporated in United Kingdom, is a 100% subsidiary of Dr. Reddy's Laboratories (EU) Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**M V Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## DIRECTORS' REPORT

Dear Members,

Your Directors present this report of the Company for the period from 1 April 2012 to 4 December 2012. The Company was sold on 4 December 2012.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period from 1 April 2012 to 4 December 2012 as compared to previous financial year:

(₹ in thousands)

| Particulars | 01 April 2012 - 04 December 2012 | 01 April 2011 - 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (55) | (1) |
| Balance brought forward | (106) | (105) |
| Deficiency transferred to Share Capital | 161 | - |
| Balance carried forward to Balance Sheet | - | (106) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the period ended 4 December 2012 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Manishmukund Joshi**
Director

Place : Hyderabad
Date : 04 December 2012

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories ILAC TICARET Limited SIRKETI LLC,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 04 December 2012, and the Statement of Profit and Loss for the period from 1 April 2012 to 4 December 2012 and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 4 December 2012; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period from 1 April 2012 to 4 December 2012; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 04 December 2012

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 04 Dec. 2012 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | - | 162 |
| Reserves and surplus | 2.2 | - | (106) |
| | | **-** | **56** |
| | **TOTAL** | **-** | **56** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 2.3 | - | 56 |
| | | **-** | **56** |
| | **TOTAL** | **-** | **56** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 04 December 2012

*for* **and on behalf of the Board of Directors**

**Manishmukund Joshi**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 1st April 2012- 4 December 2012 | For the period 01 April 2011 - 31 March 2011 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.4 | 4 | - |
| **Total revenue** | | **4** | **-** |
| **Expenses** | | | |
| Other expenses | 2.5 | 60 | 1 |
| **Total expenses** | | **60** | **1** |
| **Profit / (Loss) before tax** | | **(56)** | **(1)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the period** | | **(56)** | **(1)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 04 December 2012

*for* **and on behalf of the Board of Directors**

**Manishmukund Joshi**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

During the current year the Board of directors of the Company resolved to dispose the entity and consequently, on 4 December 2012 the outstanding equity shares in the Company were sold to a third party.

**b) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

**Note 2 : Notes to financial statements**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 4 December 2012 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Nil (previous year: TRL 5,000)* | - | 162 |
| **Issued** | | |
| Nil (previous year: TRL 5,000)* | - | 162 |
| **Subscribed and paid-up** | | |
| TRL 5,000* | 162 | 162 |
| Less : Balance in surplus account transferred to Share capital on sale of entity | (162) | - |
| Nil (previous year: TRL 5,000)* | **-** | **162** |
| *No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (106) | (105) |
| Add: Current period loss | (56) | (1) |
| Add: Transferred to Share capital on sale of entity | 162 | - |
| | **-** | **(106)** |
| **2.3 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | - | 56 |
| | **-** | **56** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the period 01 April 2012 - 4 December 2012 | For the period 01 April 2011 - 31 March 2012 |
|---|---|---|
| **2.4 : Other income** | | |
| Foreign exchange gain, net | 4 | - |
| | **4** | **-** |
| **2.5 : Other expense** | | |
| Foreign exchange loss, net | - | 1 |
| Other general expenses | 60 | - |
| | **60** | **1** |

**2.6:** All of the equity shares in the Company were sold on 4 December 2012.

**2.7: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 04 December 2012

*for* **and on behalf of the Board of Directors**

**Manishmukund Joshi**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit for the period after taxation | 18,239 | 6,720 |
| Balance brought forward | (2,370) | (9,090) |
| Balance carried forward to Balance Sheet | 15,869 | (2,370) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories Louisiana LLC,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A.Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A.Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | | - | - |
| Reserves and surplus | 2.1 | 36,387 | 17,086 |
| | | **36,387** | **17,086** |
| **Current liabilities** | | | |
| Trade payables | 2.2 | 2,062 | 2,225 |
| Other current liabilities | 2.3 | 2,370 | 7,311 |
| | | **4,432** | **9,536** |
| | **TOTAL** | **40,819** | **26,622** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.4 | 12,185 | 9,789 |
| Intangible assets | 2.4 | 2,412 | 2,611 |
| Capital work-in-progress | | 3,273 | 4,324 |
| Long term loans and advances | 2.5 | 73 | 25 |
| | | **17,943** | **16,750** |
| **Current assets** | | | |
| Inventories | 2.6 | 5,256 | 4,394 |
| Trade receivables | 2.7 | 16,134 | 4,902 |
| Cash and bank balances | 2.8 | 1,232 | 475 |
| Short term loans and advances | 2.9 | 243 | 99 |
| Other current assets | 2.10 | 11 | 2 |
| | | **22,876** | **9,872** |
| | **TOTAL** | **40,819** | **26,622** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 50,651 | 35,267 |
| Other operating revenues | | 7 | 6 |
| **Revenue from operations** | | **50,658** | **35,272** |
| Other income | 2.11 | - | 11 |
| **Total revenue** | | **50,658** | **35,283** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 14,762 | 14,979 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.12 | 4 | 106 |
| Conversion charges | | 17 | 118 |
| Employee benefits expense | 2.13 | 10,965 | 8,688 |
| Depreciation and amortization expense | 2.4 | 1,570 | 1,296 |
| Other expenses | 2.14 | 5,102 | 3,376 |
| **Total expenses** | | **32,419** | **28,563** |
| **Profit before tax** | | **18,239** | **6,720** |
| Tax expense | 2.17 | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit for the year** | | **18,239** | **6,720** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of

**Note 1: Significant Accounting Policies (continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Electrical equipment | 5 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |
| Vehicles | 3 to 5 |

**e) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**Note 1: Significant Accounting Policies (continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Goodwill | 5 to 20 |
| Patents, trademarks, etc. (including marketing/ distribution rights) | 3 to 16 |
| Customer related intangibles | 2 to 11 |
| Technology related intangibles | 3 to 13 |

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

## Note 1: Significant Accounting Policies (continued)

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**k) Government grants**

The Company recognizes government grants only when there is reasonable assurance that the conditions attached to them will be complied with, and the grants will be received. Government grants received in relation to assets are presented as a reduction to the carrying amount of the related asset. Revenue Grants are deducted in reporting the related expense.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the yea | 3,252 | 2,074 |
| Additions / (deductions) during the year | 1,062 | 1,178 |
| | 4,314 | 3,252 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 16,204 | 16,204 |
| Additions / (deductions) during the year | - | - |
| | 16,204 | 16,204 |
| ***Surplus / (Deficit)*** | | |
| Balance at the beginning of the year | (2,370) | (9,090) |
| Add: Current year profit | 18,239 | 6,720 |
| Balance carried forward | 15,869 | (2,370) |
| | **36,387** | **17,086** |
| **2.2 : Trade Payables** | | |
| Payables to holding company and other group companies | 978 | 909 |
| Payables to others | 1,084 | 1,316 |
| | **2,062** | **2,225** |
| **2.3 : Other liabilities** | | |
| Due to capital creditors | 437 | 449 |
| Due to holding company and other group companies | - | 4,959 |
| Accrued expenses | 1,702 | 1,829 |
| Other current liabilities | 231 | 74 |
| | **2,370** | **7,311** |

Note 2 : Notes to financial statements (Continued)

## 2.4 : Fixed assets

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Addition | Deletions | Forex | As at 31.03.2013 | As at 1.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land | 351 | - | - | 24 | 375 | - | - | - | - | - | 375 | 351 |
| Building | 4,877 | 100 | - | 327 | 5,304 | 686 | 210 | - | 45 | 941 | 4,363 | 4,191 |
| Plant & Machinery | 6,293 | 2,085 | 12 | 416 | 8,782 | 1,877 | 665 | 3 | 124 | 2,663 | 6,119 | 4,416 |
| Electrical Equipment | 357 | 193 | - | 23 | 573 | 20 | 38 | - | 1 | 59 | 514 | 338 |
| Lab Equipment | 150 | 285 | - | 9 | 444 | 11 | 32 | - | 1 | 44 | 400 | 138 |
| Office equipment | 7 | 67 | 8 | - | 66 | 1 | 1 | - | - | 2 | 64 | 6 |
| Furniture, Fixtures | 466 | 69 | 9 | 31 | 557 | 170 | 58 | 4 | 11 | 235 | 322 | 297 |
| Vehicles | 2 | - | - | - | 2 | - | 1 | - | - | 1 | 1 | 2 |
| Computers | 147 | - | 23 | 10 | 143 | 97 | 18 | 9 | 1 | 107 | 27 | 50 |
| **Total Tangible Assets (A)** | **12,650** | **2,799** | **52** | **840** | **16,237** | **2,861** | **1,023** | **16** | **183** | **4,052** | **12,185** | **9,789** |
| Customer contract | 4,070 | - | - | 273 | 4,343 | 3,573 | 125 | - | 233 | 3,931 | 412 | 497 |
| Goodwill | 1,924 | - | - | 129 | 2,053 | 748 | 206 | - | 50 | 1,004 | 1,049 | 1,176 |
| Patents, Trademarks | 254 | - | - | 17 | 271 | 254 | - | - | 17 | 271 | - | - |
| Intangibles (others) | 1,730 | 171 | - | 116 | 2,017 | 792 | 216 | - | 58 | 1,066 | 951 | 938 |
| **Total Intangible Assets (B)** | **7,978** | **171** | **-** | **535** | **8,684** | **5,367** | **547** | **-** | **358** | **6,272** | **2,412** | **2,611** |
| **TOTAL (A+B)** | **20,629** | **2,970** | **52** | **3,175** | **24,921** | **8,228** | **1,570** | **16** | **541** | **10,324** | **14,597** | **12,401** |
| Previous year | 16,517 | - | 347 | 2,326 | 20,629 | 6,037 | 1,296 | 28 | 923 | 8,228 | 12,401 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.5 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Capital advances for purchase of fixed assets | 73 | 25 |
| | **73** | **25** |
| **2.6 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 2,389 | 1,618 |
| Work-in-progress | 1,103 | 1,057 |
| Finished goods | 908 | 958 |
| Stores and spares | 534 | 453 |
| Packing materials | 322 | 307 |
| | **5,256** | **4,394** |
| **2.7 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | | |
| Considered doubtful | - | 11 |
| Other debts | | |
| Considered good | 4,504 | 4,902 |
| Receivables from holding company and other group companies | 11,630 | - |
| | 16,134 | 4,913 |
| *Less*: Provision for doubtful debts | - | (11) |
| | **16,134** | **4,902** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,232 | 475 |
| | **1,232** | **475** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.9 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 16 | 20 |
| Staff loans and advances | 1 | - |
| Prepaid expenses | 87 | 7 |
| Other Advances | 139 | 72 |
| ***Considered doubtful*** | | |
| Other advances recoverable in cash or in kind or for value to be received | 14 | 1 |
| | 257 | 100 |
| *Less*: Provision for doubtful loans and advances | (14) | (1) |
| | **243** | **99** |
| **2.10 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 11 | 2 |
| | **11** | **2** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | | For the year ended 31 March 2013 | | For the year ended 31 March 2012 |
|---|---|---|---|---|
| **2.11 : Other income** | | | | |
| Profit on sale of fixed assets, net | | - | | 11 |
| | | **-** | | **11** |
| **2.12 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | |
| *Net (increase) / decrease in stock* | | | | |
| *Opening* | | | | |
| Work-in-process | 1,057 | | 1,632 | |
| Finished goods | 958 | 2,015 | 488 | 2,120 |
| *Closing* | | | | |
| Work-in-process | 1,103 | | 1,057 | |
| Finished goods | 908 | 2,011 | 958 | 2,015 |
| *Net (increase)* | | **4** | | **106** |
| **2.13 : Employee benefits expense** | | | | |
| Salaries, wages and bonus | | 10,342 | | 7,897 |
| Contribution to provident and other funds | | 317 | | 523 |
| Staff welfare expenses | | 306 | | 268 |
| | | **10,965** | | **8,688** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.14 : Other expense** | | |
| Consumption of Stores and spare parts | 1,262 | 418 |
| Legal and professional | 283 | 32 |
| Carriage outward | 123 | 160 |
| Rates and taxes | 492 | 324 |
| Other selling expenses | 1 | 2 |
| Repairs and maintenance | | |
| Plant and machinery | 1,030 | 715 |
| Others | 707 | 718 |
| Power and fuel | 623 | 547 |
| Travelling and conveyance | 151 | 110 |
| Communication | 59 | 60 |
| Rent | 9 | - |
| Insurance | 176 | 130 |
| Provision - Advances & Debtors | 12 | - |
| Donations | 4 | 3 |
| Printing and stationery | 78 | 41 |
| Bank charges | 1 | - |
| Loss on sale of fixed assets, net | 14 | - |
| Auditors' remuneration | | |
| Audit fees | 1 | 1 |
| Advertisements | 1 | 1 |
| Miscellaneous | 75 | 113 |
| | **5,102** | **3,376** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

**2.15. Related party disclosures**

The Company has following amounts due from/ to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties | | |
| | (included in Other Current Assets ) | | |
| | Dr. Reddy’s Laboratories Limited | - | 2 |
| | Dr. Reddy’s Laboratories Tennessee, LLC | 11 | - |
| ii. | Due to related parties | | |
| | (included in Other Current Liabilities) | | |
| | Dr. Reddy’s Laboratories Inc. | - | 4,959 |
| iii. | Due from related parties | | |
| | (included in Trade receivables) | | |
| | Dr. Reddy’s Laboratories Inc. | 11,630 | - |
| iv. | Due to related parties | | |
| | (included in Trade Payables) | | |
| | Dr. Reddy’s Laboratories Limited | 978 | 909 |

**2.16. Commitments and contingent liabilities**

Loss contingencies arising from claims, litigations, assessments, fines, penalties etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Estimated amount of contracts remaining to be Executed on capital account and not provided for (net of advances) | 602* | 790* |

(*The above amounts of capital commitments are net of advances).

**2.17.** The tax expense for the Company is computed and presented together with the parent Company's (Dr. Reddy's Laboratories Inc.) financial as per the tax laws of United States.

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs except share data and where otherwise stated)

**2.18. Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.19.** The Company, incorporated in USA, is a wholly owned subsidiary of Dr. Reddy's Laboratories Inc.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit for the period after taxation | 66,700 | 44,006 |
| Balance brought forward | 123,285 | 79,279 |
| Balance carried forward to Balance Sheet | 189,985 | 123,285 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **De Ve Raymond** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Dr. Reddy's Laboratories SA,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 29,512 | 29,512 |
| Reserves and surplus | 2.2 | 187,569 | 125,812 |
| | | **217,081** | **155,324** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 118,292 | 110,326 |
| | | **118,292** | **110,326** |
| **Current liabilities** | | | |
| Trade payables | 2.4 | 18,324 | 3,797 |
| Other current liabilities | 2.5 | 10,880 | 9,253 |
| Short term provisions | 2.6 | 5,561 | 2,592 |
| | | **34,765** | **15,642** |
| | **TOTAL** | **370,138** | **281,292** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 166 | 2 |
| Intangible assets | 2.7 | 1,195 | 550 |
| Non current investments | 2.8 | 58,510 | 22,447 |
| Deferred tax assets, net | 2.20 | 338 | - |
| Long term loans and advances | 2.9 | 123,769 | 111,739 |
| | | **183,978** | **134,738** |
| **Current assets** | | | |
| Inventories | 2.10 | 990 | 1,303 |
| Trade receivables | 2.11 | 115,327 | 88,295 |
| Cash and bank balances | 2.12 | 66,366 | 33,957 |
| Short term loans and advances | 2.13 | 1,825 | 1,916 |
| Other current assets | 2.14 | 1,652 | 21,083 |
| | | **186,160** | **146,554** |
| | **TOTAL** | **370,138** | **281,292** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

**De Ve Raymond**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 186,402 | 139,585 |
| Service income | | 696 | 316 |
| Other operating revenues | | 17 | - |
| **Revenue from operations** | | **187,115** | **139,902** |
| Other income | 2.15 | 10,295 | 8,104 |
| **Total revenue** | | **197,410** | **148,006** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 80,957 | 54,323 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.16 | 313 | 3,264 |
| Provision for other than temporary diminution in the value of long-term investements | | - | 1,417 |
| Conversion charges | | 8,806 | 7,412 |
| Employee benefits expense | 2.17 | 2,701 | 8,403 |
| Finance costs | 2.18 | 2,614 | 2,834 |
| Depreciation and amortization expense | 2.7 | 95 | 1 |
| Research and development | | 12,675 | 356 |
| Other expenses | 2.19 | 14,394 | 21,547 |
| **Total expenses** | | **122,555** | **99,556** |
| **Profit before tax** | | **74,855** | **48,449** |
| Tax expense | | | |
| Current tax | | 8,496 | 4,444 |
| Deferred tax | | (341) | - |
| **Profit for the year** | | **66,700** | **44,006** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**De Ve Raymond**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management’s estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Leasehold improvements | 3 |
| Computer equipment | 3 |

**f) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Intangibles | 3 to 16 |

**g) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**i) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**j) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**k) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**l) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**m) Reasearch and development**

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the statement of profit and loss when incurred.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- Development costs can be measured reliably,
- The product or process is technically and commercially feasible,
- Future economic benefits are probable and ascertainable, and
- The Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

  Expenditure incurred on fixed assets used for research and development is capitalised and depreciated in accordance with the depreciation policy of the Company.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 75,640,410 (previous year 75,640,410) shares of CHF 1 each | 29,512 | 29,512 |
| **Issued** | | |
| 75,640,410 (previous year 75,640,410) shares of CHF 1 each | 29,512 | 29,512 |
| **Subscribed and paid-up** | | |
| 75,640,410 (previous year 75,640,410) shares of CHF 1 each | 29,512 | 29,512 |
| | **29,512** | **29,512** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 75,640,410 | 29,512 | 75,640,410 | 29,512 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 75,640,410 | 29,512 | 75,640,410 | 29,512 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of CHF 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories Limited | 75,640,410 | 100 | 75,640,410 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 8,051 | 401 |
| Additions / (deductions) during the year | 2,702 | 7,650 |
| | 10,753 | 8,051 |
| ***Hedging Reserve*** | | |
| Balance at the beginning of the year | (5,524) | 121 |
| Additions / (deductions) during the year | (7,645) | (5,645) |
| | (13,169) | (5,524) |
| ***Surplus*** | | |
| Balance at the beginning of the year | 123,285 | 79,279 |
| Add: Current year profit | 66,700 | 44,006 |
| Balance carried forward | 189,985 | 123,285 |
| | **187,569** | **125,812** |
| **2.3 : Long term borrowings** | | |
| ***Secured*** | | |
| Other Long term borrowings | 118,292 | 110,326 |
| | **118,292** | **110,326** |
| **2.4 : Trade Payables** | | |
| Payables to holding company and other group companies | 17,688 | 3,508 |
| Payables to others | 636 | 289 |
| | **18,324** | **3,797** |
| **2.5 : Other current liabilities** | | |
| Derivative Financial instrument - Liability | 4 | - |
| Due to capital creditors | 58 | - |
| Due to holding company and other group companies | 4,295 | 4,148 |
| Interest accrued but not due | 38 | 450 |
| Accrued expenses | 5,077 | 4,372 |
| Salary and Bonus payable | 254 | 56 |
| Due to statutory authorities | 48 | 2 |
| Other current liabilities | 1,106 | 225 |
| | **10,880** | **9,253** |
| **2.6 : Short term provisions** | | |
| Income tax payable | 5,561 | 2,592 |
| | **5,561** | **2,592** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Leasehold improvements | - | 155 | - | - | 155 | - | 33 | - | - | 33 | 122 | - |
| Computers | 3 | 51 | - | - | 54 | 1 | 9 | - | - | 10 | 44 | 2 |
| **Total Tangible Assets (A)** | **3** | **206** | **-** | **-** | **209** | **1** | **42** | **-** | **-** | **43** | **166** | **2** |
| Intangibles | 550 | 698 | - | - | 1,248 | - | 53 | - | - | 53 | 1,195 | 550 |
| **Total Intangible Assets (B)** | **550** | **698** | **-** | **-** | **1,248** | **-** | **53** | **-** | **-** | **53** | **1,195** | **550** |
| **TOTAL (A+B)** | **553** | **904** | **-** | **-** | **1,457** | **1** | **95** | **-** | **-** | **96** | **1,361** | **552** |
| Previous year | 550 | 3 | - | - | 553 | - | 1 | - | - | 1 | 552 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Non current investments** | | |
| Investments in Subsidiaries | 59,959 | 23,896 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | (1,449) | (1,449) |
| | **58,510** | **22,447** |
| **2.9 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 123,728 | 111,695 |
| Security Deposits | 41 | 44 |
| | **123,769** | **111,739** |
| **2.10 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade (in respect of goods acquired for trading) | 990 | 1,303 |
| | **990** | **1,303** |
| **2.11 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 336 | - |
| Considered doubtful | 199 | 224 |
| Other debts | | |
| Considered good | 30,493 | 23,061 |
| Receivables from holding company and other group companies | 84,498 | 65,234 |
| | 115,526 | 88,519 |
| *Less*: Provision for doubtful debts | (199) | (224) |
| | **115,327** | **88,295** |
| **2.12 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 2,853 | 3,432 |
| In term deposit accounts (maturity less than 3 months) | 6,514 | 15,263 |
| **Cash and cash equivalents (A)** | **9,367** | **18,695** |
| In term deposit accounts* | 56,999 | 15,262 |
| *(maturity more than 3 months but less than 12 months) | | |
| **Other bank balances (B)** | **56,999** | **15,262** |
| **Total cash and bank balances (A+B)** | **66,366** | **33,957** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.13 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 1,665 | 1,170 |
| Staff loans and advances | 4 | - |
| Balances with Statutory Agencies | 7 | 4 |
| Prepaid expenses | 149 | 151 |
| Other Advances | - | 591 |
| | **1,825** | **1,916** |
| **2.14 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 678 | 20,924 |
| Derivative Financial Instrument - Asset | 127 | 70 |
| Interest Receivable | 585 | 88 |
| Other current assets | 262 | 1 |
| | **1,652** | **21,083** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.15 : Other income** | | |
| interest income | 5,117 | 4,637 |
| Foreign exchange gain, net | 5,178 | 3,467 |
| | **10,295** | **8,104** |
| **2.16 : Changes in inventories of finished goods, work in progress and stock in trade** | | |
| *Net (increase) / decrease in stock* | | |
| *Opening* | | |
| Stock in trade | 1,303 | 4,567 |
| *Closing* | | |
| Stock in trade | 990 | 1,303 |
| *Net decrease/(increase)* | **313** | **3,264** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.17 : Employee benefits expense** | | |
| Salaries, wages and bonus | 2,480 | 7,941 |
| Staff welfare expenses | 221 | 462 |
| | **2,701** | **8,403** |
| **2.18 : Finance costs** | | |
| Interest Expenses | 2,614 | 2,834 |
| | **2,614** | **2,834** |
| **2.19 : Other expense** | | |
| Consumption of Stores and spare parts | 137 | 242 |
| Legal and professional | 704 | 860 |
| Carriage outward | 234 | 179 |
| Rates and taxes | - | 65 |
| Commision on Sales | 573 | 1,481 |
| Other selling expenses | 1,063 | 5,063 |
| Travelling and conveyance | 420 | 865 |
| Communication | 73 | 193 |
| Rent | 110 | 443 |
| Insurance | 353 | 815 |
| Donations | - | 8 |
| Bad debts written-off | 259 | 1 |
| Printing and stationery | 32 | 40 |
| Bank charges | 26 | 79 |
| Auditors' remuneration | | |
| Audit fees | 19 | 28 |
| Advertisements | 174 | 764 |
| Miscellaneous | 10,217 | 10,421 |
| | **14,394** | **21,547** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.20: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Current Liabilities | 99 | - |
| Fixed Assets | 239 | - |
| **Deferred Tax Asset, net** | **338** | **-** |

**2.21: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013. (Previous year: Nil)

**2.22: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Dues from related Parties (included in Advances and other assets) | | |
| | Dr. Reddy's Laboratories Ltd. | 678 | 20,342 |
| | Dr. Reddys Pharma Iberia SA | - | 3,733 |
| | Dr. Reddy's Laboratories Inc. | - | 570 |
| | Dr. Reddy's Laboratories (EU) Limited | 7,177 | 7,113 |
| | Lacock Holdings Limited | 103,389 | 91,231 |
| | Reddy Holdings GmbH | 13,162 | 9,618 |
| | Promious Pharma LLC | - | 12 |
| ii. | Due to related parties (included in other liabilities) | | |
| | Dr. Reddy's Laboratories Ltd. | 3,310 | 3,439 |
| | OOO Dr. Reddy's Laboratories Limited | 789 | 709 |
| | Dr. Reddy's Laboratories Inc. | 182 | - |
| | Chirotech Technology Limited | 14 | - |
| iii. | Due from related parties (included in Trade Receivables) | | |
| | Dr. Reddy's Laboratories Ltd. | 3,023 | 3,397 |
| | OOO Dr. Reddy's Laboratories Limited | 11,750 | 37,024 |
| | Industrias Quimicas Falcon de Mexico, S.A. | 2 | - |
| | Dr. Reddy's Laboratories Inc. | 69,763 | 24,255 |
| | Dr. Reddy's Laboratories LLC, Ukraine | 296 | 558 |
| iv. | Due to related parties (included in Trade Payables) | | |
| | Dr. Reddy's Laboratories Ltd. | 15,305 | - |
| | Industrias Quimicas Falcon de Mexico, S.A. | 2,009 | 2,371 |
| | Dr. Reddy's Laboratories Romania SRL | 250 | 213 |
| | Dr. Reddy's New Zealand Limited | - | 223 |
| | Dr. Reddy's Laboratories (EU) Limited | 124 | 701 |

**Note 2 : Notes to Financial Statements (continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.23: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.24:** The Company incorporated in the Switzerland, is a 100% subsidiary of Dr. Reddy's Laboratories Ltd.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**De Ve Raymond**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 26th Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit / (Loss) for the period | (823,661) | 23,738 |
| Balance Brought forward | 84,010 | 60,272 |
| Balance Carried forward to Balance Sheet | (739,651) | 84,010 |

**Operations**

The Company did not have any operation during the year.

**Dividend**

Your Directors do not recommend any dividend for the financial year ending 31 March 2013.

**Change of Name**

The name of the Company was changed from DRL Investments Limited to DRL Impex Limited with effect from 11 December 2012.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Subsidiary Company**

The Company has one wholly owned subsidiary, namely I-Ven Pharma Capital Limited as on 31 March 2013. The documents / statement, pursuant to the provision of Section 212(1) of the Companies Act, 1956 are attached to the Balance Sheet of your Company.

**Directors Responsibility statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2012-13 and of net loss of the company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Directors**

Mr. G V Prasad, retire by rotation at the ensuing Annual General Meeting scheduled on 29 July 2013 and being eligible seeks re-appointment. Your Directors recommends his re-appointment for your approval at the ensuing AGM.

Mr. Umang Vohra resigned from the Board of Directors of the Company and ceases to a Director of the Company with effect from 11 February 2013. The Board accorded its deep appreciation for the services rendered by him during his term.

The Board of Directors had appointed Mr. Saumen Chakraborty as an Additional Director on the Board of Directors of the Company on 11 February 2013. He will hold this office till the conclusion of the 26 Annual General Meeting of the Company. Requisite notice under Section 257 of the Companies Act, 1956 has been received from a member proposing his appointment. It is proposed to appoint him as a Director of the Company liable to retire by rotation. The resolution for the same has been included in the notice of the 26th Annual General Meeting of the Company.

**Auditors**

The Statutory Auditors of the Company M/s. A. Ramachandra Rao & Co., Chartered Accountants, retire at the ensuing 26 Annual General Meeting and have confirmed their eligibility and willingness to accept office of auditors, if re-appointed. The Board of Directors recommends re-appointment of M/s. A. Ramachandra Rao & Co., Chartered Accountants as Statutory Auditors of the Company for the financial year 2013-14 for shareholder's approval.

**Particulars of Employees**

There are no employees who are drawing salary more than the amount as specified under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time. Hence the relevant provisions are not applicable to the Company.

**Conservation of energy research and developments, technology absorption, foreign exchange earning and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgements**

Your Directors place on record their sincere appreciation for support and co-operation extended by all the concerned to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **Satish Reddy** | **Saumen Chakraborty** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS' REPORT

**To**
**The Members of**
M/s DRL Impex Limited.
Hyderabad.

We have audited the accompanying financial statements of **DRL Impex Ltd** (formerly DRL Investments Ltd) which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

01. 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 India:

    a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

    b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

    c) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

02. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

03. As required by section 227(3) of the Act, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books.

c) the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

d) in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **A. Ramachandra Rao & Co.,**
*Chartered Accountants*
ICAI FRN NO : 002857S

Place : Hyderabad
Date : 10 May 2013

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

## ANNEXURE TO THE AUDITORS' REPORT

(Of even date referred to in Para (2) of our Report)

We report as required under paragraph 4 that:

i. a) The Company is maintaining proper records to show full particulars, including quantitative details and situation of fixed assets.

b) The company has regular program of physical verification of its fixed assets which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets.

c) During the year under report, the company has not disposed off any major part of the Plant and machinery and hence clause 4(i) (c) is not applicable.

ii The Company does not have any inventories and as such verification of stocks does not arise. In view of this the clauses 4(ii)(b) and 4(ii)(c) are not applicable to the company

iii. a) The company has not granted any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained u/s 301 of the Act during the year.

b) The company has taken unsecured loans from companies covered in the register maintained u/s.301 of the act. The number of parties is one and the amount involved is ₹ 2,592,869 thousands (previous year ₹ 2,548,753).

c) In our opinion the rate of interest and other terms and conditions of loans taken are not prima facie prejudicial to the interest of the company

d) In our opinion the payment of principal and interest are regular.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets. The Company does not have any purchase of inventory and also for the sale of goods . During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

v. In our opinion, and according to the information and explanations given to us, there are no transactions that need to be entered in the register maintained under section 301 of the Companies act 1956 and hence para 4(v)(a) and 4(v)(b) are not applicable.

vi. Based on the information provided to us, in our opinion, the Company has not accepted any Deposits from the public during the year and hence, in our opinion, the Clause 4(vi) is not applicable to the company for the year;

vii. In our opinion, the company has an internal audit system to commensurate with its size and nature of its business.

viii. We are of the opinion, based on the information provided to us, the maintenance of cost records has not been prescribed by the Central Government under section 209(1) (d) of the Companies act, 1956 to the company.

ix. a) According to the records of the company, the company is regular in depositing the undisputed statutory dues including Sales tax, Income-tax, Customs duty, Excise duty and Employees State Insurance and Provident Fund and cess, investor education fund with the appropriate authorities. We have been informed that the provision of provident fund, Investor Education protection fund, Employees State insurance, sales tax, custom duty and Excise duty are not applicable to the company.

b) According to the information and explanations given to us, there are no dues of sales tax/income tax/ customs duty/Wealth tax /excise duty/cess to be deposited on account of any dispute;

c) Further, since the Central government has till date not prescribed the amount of cess payable under section 441A of the Companies act 1956,we are not in a position to comment upon the regularity or otherwise of the company in depositing the same.

x. In our opinion the accumulated losses of the company are not less than fifty percent of its net worth. Further the Company has incurred cash losses during the financial year covered by our audit.

xi. Based on the information provided and explanation given to us, the company has not taken any loans from banks and hence the Sub Clause (xi) is not applicable to the company for the year;

xii. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a Chit fund or Nidhi / Mutual Benefit Fund / Society and hence clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.

xiv. Based on the information given to us, the Company has not dealt or traded in shares, securities, debentures or other investments during the year.

xv. Based on the information provided to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.

xvi. According to the information and explanations given to us, the company has not obtained any term loans during the year and hence clause 4(xvi) of the order is not applicable to the company.

xvii. According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment;

xviii. Based on the information provided and explanations offered, during the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 and hence sub clause (xvii) of the order is not applicable to the company for the year.

xix. The Company has not issued any debentures and not created any securities or charges in respect of any debentures.

xx. The Company has not raised any money by way of Public Issue during the year.

xxi. In our opinion and according to the information provided and explanations offered to us, no fraud on or by the Company has been noticed or reported during the year.

For **A. Ramachandra Rao & Co.,**
*Chartered Accountants*
ICAI FRN NO : 002857S

Place : Hyderabad
Date : 10 May 2013

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 500 | 500 |
| Reserves and surplus | 2.2 | (739,651) | 84,010 |
| | | **(739,151)** | **84,510** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 2,592,869 | 2,548,753 |
| | | **2,592,869** | **2,548,753** |
| **Current liablities** | | | |
| Other current liabilities | 2.4 | 1,215 | 1,373 |
| Short Term Provisions | 2.5 | 3,733 | - |
| | | **4,948** | **1,373** |
| | **TOTAL** | **1,858,666** | **2,634,636** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible Assets | 2.6 | 6,111 | 6,111 |
| Non-current investments | 2.7 | 1,837,789 | 2,612,381 |
| | | **1,843,900** | **2,618,492** |
| **Current assets** | | | |
| Cash and bank balances | 2.8 | 14,767 | 12,938 |
| Short-term loans and advances | 2.9 | - | 3,206 |
| | | **14,767** | **16,144** |
| | **TOTAL** | **1,858,666** | **2,634,636** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other Income | 2.10 | - | 106,192 |
| Total Revenue | | **-** | **106,192** |
| **Expenses** | | | |
| Finance costs | 2.11 | 49,019 | 51,920 |
| Other expenses | 2.12 | 50 | 3,199 |
| Provison for decline in value of long - term investments | | 774,592 | - |
| Total expenses | | **823,661** | **55,119** |
| **Profit /(Loss) before exceptional and extraordinary items and tax** | | **(823,661)** | **51,073** |
| Exceptional items | | - | |
| **Profit /(Loss) before extraordinary items and tax** | | **(823,661)** | **51,073** |
| Extraordinary Items | | - | |
| **Profit /(Loss) before tax** | | **(823,661)** | **51,073** |
| Tax expense | | | |
| Current tax | 2.13 | - | 27,335 |
| Deferred tax | | - | - |
| **Profit /(Loss) for the year** | | **(823,661)** | **23,738** |
| **Earnings per share** | | | |
| Basic - Par value ₹ 10/- per share | 2.14 | (16,473.22) | 474.76 |
| Diluted - Par value ₹ 10/- per share | | (16,473.22) | 474.76 |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

Place : Hyderabad
Date : 10 May 2013

## Cash Flow Statement

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Profit /(Loss) before tax | (823,661) | 51,073 |
| Adjustments for: | | |
| Add: Finance cost | 49,019 | 51,920 |
| Add: Provison for decline in value of long - term investments | 774,592 | - |
| Less: Interest Income | - | (106,192) |
| Operating profit /(Loss) before working capital changes | (50) | (3,199) |
| Decrease /(Increase) in Short Term Loans and advances | 3,207 | (10,619) |
| Increase in Short Term Provisons | 3,733 | 27,335 |
| Decrease in Other Current Liabilities | (158) | (178,624) |
| **Cash generated from Operations** | **6,731** | **(165,107)** |
| Less: Income tax paid | - | (19,000) |
| **Net cash provided by operating activities** | **6,731** | **(184,107)** |
| **Cash flows From/(Used In) investing activities** | | |
| Redemption of debentures | - | 67,619 |
| Interest on debentures received | - | 193,949 |
| **Cash flows From/(Used In) investing activities** | **-** | **261,568** |
| **Cash flows From/(Used In) financing activites** | | |
| Interest paid | (4,903) | (63,733) |
| Long term borrowings | - | (151,100) |
| **Cash flows From/(Used In) financing activites** | **(4,903)** | **(214,833)** |
| **Net increase/(decrease) in cash & bank balances** | **1,829** | **(137,372)** |
| Cash & bank balances at the beginning of the year | 12,938 | 150,310 |
| **Cash & bank balances at the end of the year** | **14,767** | **12,938** |

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation**

The financial statements have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP)n under the historical cost convention on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956. The financial statements are rounded off to the nearest thousands.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees Thousands, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Fixed assets, depreciation and amortisation**

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalised.

Land is not depreciated. Depreciation on other fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the companies Act, 1956 or based on the useful life of the assets as estimated by Management whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

**d) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

Current tax

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**e) Earnings per share**

The basic earnings per share ("EPS") is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares.

**f) Provisions and contingent liabilities**

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

**g) Investments**

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Revenue recognition**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

Service income is recognised as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.

## Note 2: Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 50,000 (previous year 50,000) Equity shares of ₹ 10/- each | 500 | 500 |
| | 500 | 500 |
| **Issued, Subscribed and Paid up** | | |
| 50,000 (previous year 50,000) Equity Shares of ₹ 10/- each | 500 | 500 |
| | **500** | **500** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | Amount | No. of equity shares | Amount |
| Number of shares at the beginning of the period | 50,000 | 500 | 50,000 | 500 |
| Issued during the period | - | - | - | - |
| Outstanding at the end of the period | **50,000** | **500** | **50,000** | **500** |

**(b) Terms/rights attached to shares**

The company has only one class of equity share having a par value of ₹ 10/- per share . Each holder of equity share is entitled to one vote per share.

**Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | % holding in the class | No. of equity shares | % holding in the class |
| Dr Reddy's Laboratories Ltd | 49,994 | 99.99 | 49,994 | 99.99 |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Surplus / (Deficit)*** | | |
| Balance in profit and loss account brought forward | 84,010 | 60,272 |
| Add: Transfer from General Reserve | - | - |
| | 84,010 | 60,272 |
| Add: Current Year Profit /(Loss) | (823,661) | 23,738 |
| Balance Carried Forward | **(739,651)** | **84,010** |
| **2.3 : Long term borrowings** | | |
| Unsecured Loan - From Dr Reddy's Laboratories Ltd | 2,592,869 | 2,548,753 |
| | **2,592,869** | **2,548,753** |
| With effect from 1st January, 2013 , interest rate reduced to 1.75% from 2% | | |
| **2.4 : Other Current liabilities** | | |
| Outstanding Liabilities | 124 | 115 |
| Due to statutory authorities- TDS Payable | 1,091 | 1,258 |
| | **1,215** | **1,373** |
| **2.5 : Short Term Provisions** | | |
| Provision for Tax | 3,733 | - |
| | **3,733** | **-** |

## Note 2: Notes to financial statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | Depreciation / Amortization | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | As at 31.03.2013 | As at 01.04.12 | For the year | Deletions | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| ***Tangible Assets*** | | | | | | | | | | |
| Land | 6,111 | - | - | 6,111 | - | - | - | - | 6,111 | 6,111 |
| **Total Tangible Assets** | **6,111** | **-** | **-** | **6,111** | **-** | **-** | **-** | **-** | **6,111** | **6,111** |
| Previous year | 6,111 | - | - | 6,111 | - | - | - | - | 6,111 | |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Non-current investments** | | |
| **Unquoted investment in Subsidiary** | | |
| Equity shares (fully paid up) | 2,612,381 | 2,612,381 |
| Less: Provision for decline in the value of investment | (774,592) | - |
| | **1,837,789** | **2,612,381** |
| **2.8: Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 14,767 | 12,938 |
| | **14,767** | **12,938** |
| **2.9: Short-term loans and advances** | | |
| Advance tax | - | 3,206 |
| | **-** | **3,206** |

## Note 2: Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10: Other Income** | | |
| Interest income on debentures from subsidiaries | - | 106,192 |
| | **-** | **106,192** |
| **2.11: Finance costs** | | |
| Interest on loan payable to holding company | 49,019 | 51,920 |
| | **49,019** | **51,920** |
| **2.12 : Other expenses** | | |
| Interest Others | 19 | 3,174 |
| Auditors' remuneration | 11 | 11 |
| Tax Audit Fees | - | 11 |
| Legal & Professional | 5 | - |
| Rates & Taxes | 15 | 3 |
| | **50** | **3,199** |
| **2.13: Income taxes** | | |
| **Current taxes** | | |
| Domestic taxes | - | 27,335 |
| **Total current taxes** | **-** | **27,335** |
| **2.14 : Earnings per share** | | |
| Net profit /(Loss) for the year | (823,661) | 23,738 |
| **Shares:** | | |
| Weighted avg number of equity shares outstanding during the year - Basic | 50,000 | 50,000 |
| Weighted avg number of equity shares outstanding during the year - Diluted | 50,000 | 50,000 |
| Basic Earnings / (Loss) in ₹ per share | (16,473.22) | 474.76 |
| Diluted Earnings / (Loss) in ₹ per share | (16,473.22) | 474.76 |
| **2.15: Related Party Disclosure** | | |
| The company has the following amount due to related parties : | | |
| Due to related parties (included in unsecured loans):- Dr. Reddy's Laboratories Limited | 2,592,869 | 2,548,753 |
| | **2,592,869** | **2,548,753** |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.16: Company Name Change**

With effect from 11 December 2012 the name of the company was changed from DRL Investments Limited to DRL Impex Limited

**2.17: Provision for decline in investments**

Consequent to the decline in expected cash flows of some of the products forming part of product related intangibles pertaining to I-ven Pharma Capital Limited (subsidiary), the Company assessed the recoverability of money invested in its subsidiary. Accordingly, the Company has created a provision of ₹ 774,592 thousands for diminution in the value of long term investments during the year.

**2.18 : Comparitive Figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year presentation

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Saumen Chakraborty**
Director

## Statement pursuant to Section 212 of the Companies Act, 1956

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Name of the Subsidiary | The Financial Year of the subsidiary company ended on | Number of shares in the subsidiary company held by DRL Impex Limited at the above date | | | | The net Aggregate of profits (losses) of the subsidiary company for it's financial year so far as they concern the members of DRL Impex Limited | | The net Aggregate of profits (losses) of the subsidiary company for it's previous financial years so far as they concern the members of DRL Impex Limited | | Changes in the interest of DRL Impex Limited between the end of the last financial year and 31 March 2012 | Material changes between the end of the last financial year and 31 March 2012 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Equity Shares | Preference Shares | Equity Holding % | Preference Holding % | a) Dealt with in the account of DRL Impex Limited for the year ended 31.03.2013 | b) Not dealt with in the account of DRL Impex Limited for the year ended 31.03.2013 | a) Dealt with in the account of DRL Impex Limited for the year ended 31.03.2012 | b) Not dealt with in the account of DRL Impex Limited for the year ended 31.03.2012 | | |
| **I-VEN Pharma Capital Limited** | 31.03.2013 | 88,514 | - | 100 | - | Nil | 253,409 | Nil | 95,254 | Nil | Under voluntary liquidation |

## DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (4,266) | (1,770) |
| Balance brought forward | (4,596) | (2,826) |
| Balance carried forward to Balance Sheet | (8,862) | (4,596) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**M V Ramana**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Euro Bridge Consulting B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 36,985 | 36,985 |
| Reserves and surplus | 2.2 | 113,657 | 117,923 |
| | | **150,642** | **154,908** |
| **Current liabilities** | | | |
| Other current liabilities | 2.3 | 2,897 | 1,240 |
| | | **2,897** | **1,240** |
| | **TOTAL** | **153,539** | **156,148** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Non current investments | 2.4 | 152,052 | 152,052 |
| | | **152,052** | **152,052** |
| **Current assets** | | | |
| Cash and bank balances | 2.5 | 1,487 | 727 |
| Short term loans and advances | 2.6 | - | 3,369 |
| | | **1,487** | **4,096** |
| | **TOTAL** | **153,539** | **156,148** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**M V Ramana**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.7 | 175 | - |
| **Total revenue** | | **175** | **-** |
| **Expenses** | | | |
| Finance costs | 2.8 | - | 75 |
| Other expenses | 2.9 | 4,441 | 1,695 |
| **Total expenses** | | **4,441** | **1,770** |
| **Profit / (Loss) before tax** | | **(4,266)** | **(1,770)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(4,266)** | **(1,770)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**M V Ramana**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of the Companies Act,1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**e) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**f) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 100,000 (previous year 100,000) Equity shares of Euro 10 each | 55,863 | 55,863 |
| **Issued** | | |
| 56,200 (previous year 56,200) Equity shares of Euro 10 each | 36,985 | 36,985 |
| **Subscribed and paid-up** | | |
| 56,200 (previous year 56,200) Equity shares of Euro 10 each | 36,985 | 36,985 |
| | **36,985** | **36,985** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 56,200 | 36,985 | 54,200 | 31,094 |
| Add: Share issued during the year | - | - | 2,000 | 5,891 |
| Number of shares outstanding at the end of the year | 56,200 | 36,985 | 56,200 | 36,985 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 10 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Reddy Antilles N.V. | 56,200 | 100 | 56,200 | 100 |

## Note 2: Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 122,519 | 121,773 |
| Additions / (deductions) during the year | - | 746 |
| | 122,519 | 122,519 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (4,596) | (2,826) |
| Add: Current year loss | (4,266) | (1,770) |
| Balance carried forward | (8,862) | (4,596) |
| | **113,657** | **117,923** |
| **2.3 : Other current liabilities** | | |
| Other current liabilities | 2,897 | 1,240 |
| | **2,897** | **1,240** |
| **2.4 : Non current investments** | | |
| Investments in Subsidiaries | 152,052 | 152,052 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | - | - |
| | **152,052** | **152,052** |
| **2.5 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,487 | 727 |
| | **1,487** | **727** |
| **2.6 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Balances with Statutory Agencies | - | 12 |
| Other Advances | - | 3,357 |
| | **-** | **3,369** |

## Note 2: Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7 : Other income** | | |
| Foreign exchange gain, net | 175 | - |
| | **175** | **-** |
| **2.8 : Finance costs** | | |
| Interest Expenses | - | 75 |
| | **-** | **75** |
| **2.9 : Other expense** | | |
| Legal and professional | 376 | 508 |
| Foreign exchange loss, net | - | 73 |
| Bank charges | 19 | - |
| Miscellaneous | 4,046 | 1,114 |
| | **4,441** | **1,695** |

**2.10: Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.11:** The Company is incorporated under the laws of Netherlands and is a subsidiary of Reddy Antilles N.V.

**2.12: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**M V Ramana**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the 13th Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit / (Loss) for the period | (2) | (5) |
| Balance Brought forward | (14,162) | (14,157) |
| Balance Carried forward to Balance Sheet | (14,164) | (14,162) |

**Operations**

The Company did not have any operation during the year.

**Dividend**

Your Directors do not recommend any dividend for the financial year ending 31 March 2013.

**Share capital**

During the year under review, there was no change in the share capital of the Company.

**Directors Responsibility statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2012-13 and of net loss of the company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Directors**

Mr. Satish Reddy, retires by rotation at the ensuing Annual General Meeting scheduled on 29 July 2013 and being eligible seeks re-appointment. Your Directors recommends his re-appointment for your approval at the ensuing AGM.

Dr. K Anji Reddy passed away on 15 March 2013. The Board accorded its deep appreciation for the services rendered and the invaluable contribution made by him during his tenure.

**Auditors**

M/s. Satyanaryana & Co., Chartered Accountants, have expressed their inability to be re-appointed as Statutory Auditors of the Company for the FY 2013-14. Further, the Company has received consent from M/s. A. Ramachandra Rao and Co., Chartered Accountants to act as Statutory Auditors of the Company for the FY 2013-14. The Board of Directors therefore, recommend the appointment of M/s. A. Ramachandra Rao, Chartered Accountants as Statutory Auditors of the Company for FY 2013-14 for the approval of the Shareholders.

**Compliance Certificate**

Pursuant to the provisions of Section 383A of the Companies Act, 1956, a certificate issued by a Company Secretary in whole time practice with regard to compliance with the provisions of the Companies Act, 1956 is enclosed as Annexure – I.

**Particulars of Employees**

There are no employees who are drawing salary more than the amount as specified under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended from time to time. Hence the relevant provisions are not applicable to your Company.

**Conservation of energy, research and developments, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgements**

Your Directors place on record their sincere appreciation for support and co-operation extended by all the concerned to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **G V Prasad** | **Satish Reddy** |
| Date : 10 May 2013 | Director | Director |

## AUDITORS' REPORT

**To**

The Members of
Idea2 Enterprises (India) Private Limited
Hyderabad.

We have audited the accompanying financial statements of **Idea2 Enterprises (India) Private Limited** which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956. 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.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

01. 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 India:

    a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013;

    b) in the case of the Profit and Loss Account, of the loss for the year ended on that date; and

02. As required by the Companies (Auditor's Report) Order, 2003 issued by the Central Government of India in terms of sub-section (4A) of section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.

03. As required by section 227(3) of the Act, we report that:

a) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b) in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books

c) the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement dealt with by this Report are in agreement with the books of account.

d) in our opinion, the Balance Sheet, Statement of Profit and Loss, and Cash Flow Statement comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956;

e) on the basis of written representations received from the directors as on 31 March 2013, and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2013, from being appointed as a director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

f) Since the Central Government has not issued any notification as to the rate at which the cess is to be paid under section 441A of the Companies Act, 1956 nor has it issued any Rules under the said section, prescribing the manner in which such cess is to be paid, no cess is due and payable by the Company.

For **SATYANARAYANA & CO**
*Chartered Accountants*
ICAI FRN No. 003680S

Place : Hyderabad
Date : 10 May 2013

**(G. VENKATARATNAM)**
*Partner*
Membership No. 19455

## ANNEXURE TO THE AUDITORS' REPORT

(Of even date referred to in Para (2) of our Report)

I. a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.

b) All the Fixed Assets have not been physically verified by the management during the year but there is a regular program of verification which, in our opinion, is reasonable having regard to the size of the Company and nature of its assets and to the best of our knowledge no material discrepancies were noticed on such verification;.

c) In our opinion, the Company has not disposed off substantial part of fixed assets during the year and the going concern status of the Company is not affected.

ii. The company does not have any inventories and hence, in our opinion ,clauses 4(ii)(a) to (c) are not applicable to the company.

iii. Based on the information and explanations provided to us, the company has not granted or taken any loans, secured or unsecured, to companies, firms or other parties covered in the register maintained u/s 301 of the Act during the year. Accordingly the sub-clauses (b),(c),(d) of clause 4(iii) are not applicable for the year.

iv. In our opinion and according to the information and explanations given to us, there is an adequate internal control procedures commensurate with the size of the Company and the nature of its business for the purchase of inventory and fixed assets and also for the sale of goods and services . During the course of our audit, we have not observed any continuing failure to correct major weaknesses in internal control system.

v. In our opinion, and according to the information and explanations given to us, we are of the opinion that the company has not entered into any transactions that need to be entered into the register maintained under section 301 of the companies act 1956 and hence the Sub clause (v) is not applicable to the company for the year.

vi. Based on the information provided to us, in our opinion, the Company has not accepted any Deposits from the public during the year and hence, in our opinion, the Clause 4(vi) is not applicable to the company for the year;

vii. In our opinion, the company has an internal audit system to commensurate with its size and nature of its business.

viii. We are of the opinion, based on the information provided to us, that the Central Government has not prescribed any accounts and records, which are required to be maintained under section 209(1)(d) of the Act .

ix. a) According to the records of the company, the company is regular in depositing the undisputed statutory dues including Sales tax, Income-tax, Customs duty, Excise duty and Employees State Insurance and Provident Fund and cess, investor education fund with the appropriate authorities. We have been informed that the provisions of Employees state Insurance, Wealth tax and excise duty are not applicable to the company.

b) According to the information and explanations given to us, there are no dues of sales tax/income tax/ customs duty/Wealth tax /excise duty/cess to be deposited on account of any dispute;

c) Further, since the Central Government has till date not prescribed the amount of cess payable under section 441A of the companies act 1956,we are not in a position to comment upon the regulatory or otherwise of the company in depositing the same.

x. In our opinion the accumulated losses of the company are not more than fifty percent of its net worth. The company has incurred cash losses during the financial year covered by our audit and immediately preceding the financial year.

xi. Based on the information provided and explanation given to us, the company has not taken any loans from banks and hence the clause 4(xi) is not applicable to the company for the year.

xii. In our opinion and according to the information and explanation given to us, no loans and advances have been granted by the company on the basis of security by way of pledge of shares, debentures and other securities.

xiii. In our opinion, the Company is not a Chit fund or Nidhi / Mutual Benefit Fund / Society and hence clause 4(xiii) of the Companies (Auditor's Report) Order 2003 is not applicable to the Company.

xiv. Based on the information given to us, the Company has not dealt or traded in shares, securities, debentures or other investments during the year.

xv. Based on the information provided to us, the Company has not given guarantees for loans taken by others from Banks or Financial Institutions.

xvi. According to the information and explanations given to us, the company has not obtained any term loans during the year and hence clause 4(xvi) of the order is not applicable to the company.

xvii. According to the information and explanations given to us, and on an overall examination of the Balance Sheet of the Company, we are of the opinion that the funds raised on short term basis have not been used for long term investment;

xviii. Based on the information provided and explanations offered, during the year, the Company has not made any preferential allotment of shares to parties and companies covered in the register maintained u/s 301 of the Companies Act 1956 and hence sub clause (xvii) of the order is not applicable to the company for the year.

xix. The Company has not issued any debentures and not created any securities or charges in respect of any debentures.

xx. The Company has not raised any money by way of Public Issue during the year.

xxi. In our opinion and according to the information provided and explanations offered to us, no fraud on or by the Company has been noticed or reported during the year.

For **SATYANARAYANA & CO**
*Chartered Accountants*
ICAI FRN No. 003680S

Place : Hyderabad
Date : 10 May 2013

**(G. VENKATARATNAM)**
*Partner*
Membership No. 19455

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 23,778 | 23,778 |
| Reserves and surplus | 2.2 | 1,422,800 | 1,422,802 |
| | | **1,446,578** | **1,446,580** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | 3,615 | 3,615 |
| Short term provisions | 2.4 | 13 | 13 |
| | | **3,628** | **3,628** |
| | **TOTAL** | **1,450,206** | **1,450,208** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible Assets | 2.5 | 1,449,989 | 1,449,989 |
| | | **1,449,989** | **1,449,989** |
| **Current assets** | | | |
| Cash and bank balances | 2.6 | 216 | 218 |
| Short term loans and advances | 2.7 | 1 | 1 |
| | | **217** | **219** |
| | **TOTAL** | **1,450,206** | **1,450,208** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **Satyanarayana & Co.**
*Chartered Accountants*
ICAI FRN No. 003680S

*for* **and on behalf of the Board of Directors**

**G. Venkataratnam**
*Partner*
Membership No. 19455

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other Income | 2.8 | 9 | 10 |
| Total Revenue | | **9** | **10** |
| **Expenses** | | | |
| Other expenses | 2.9 | 11 | 15 |
| Total expenses | | **11** | **15** |
| **Loss before exceptional and extraordinary items and tax** | | **(2)** | **(5)** |
| Exceptional items | | - | - |
| **Loss before extraordinary items and tax** | | **(2)** | **(5)** |
| Extraordinary Items | | - | - |
| **Loss before tax** | | **(2)** | **(5)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Loss for the year** | | **(2)** | **(5)** |
| **Earnings per share** | 2.10 | | |
| Basic - Par value ₹ 10 per share | | (0.001) | (0.002) |
| Diluted - Par value ₹ 10 per share | | (0.001) | (0.002) |
| **Significant Accounting Policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **Satyanarayana & Co.**
*Chartered Accountants*
ICAI FRN No. 003680S

**G. Venkataratnam**
*Partner*
Membership No. 19455

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation**

The financial statements have been prepared and presented in accordance with Indian Generally Accepted Accounting Principles (GAAP) under the historical cost convention, on the accrual basis. GAAP comprises accounting standards notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956. The financial statements are rounded off to the nearest thousands.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees Thousands, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Fixed assets, depreciation and amortisation**

Fixed assets are carried at the cost of acquisition or construction less accumulated depreciation. The cost of fixed assets includes non-refundable taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets. Borrowing costs directly attributable to acquisition or construction of those fixed assets which necessarily take a substantial period of time to get ready for their intended use are capitalized.

Land is not depreciated. Depreciation on other fixed assets is provided using the straight-line method at the rates specified in Schedule XIV to the companies Act, 1956 or based on the useful life of the assets as estimated by Management whichever is higher. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

**d) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisation of such assets.

Deferred tax assets are reviewed at each balance sheet date and are written-down or written-up to reflect the amount that is reasonably/virtually certain (as the case may be) to be realised. The break-up of the major components of the deferred tax assets and liabilities as at balance sheet date has been arrived at after setting off deferred tax assets and liabilities where the Company has a legally enforceable right to set-off assets against liabilities and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**e) Earnings per share**

The basic earnings per share (“EPS”) is computed by dividing the net profit after tax for the year by the weighted average number of equity shares outstanding during the year. For the purpose of calculating diluted earnings per share, net profit after tax for the year and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. The dilutive potential equity shares are deemed converted as of the beginning of the period, unless they have been issued at a later date. The diluted potential equity shares have been adjusted for the proceeds receivable had the shares been actually issued at fair value (i.e. the average market value of the outstanding shares.

**f) Provisions and contingent liabilities**

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

**g) Investments**

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**h) Revenue recognition**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

## Note 2: Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 2,500,000 (previous year 2,500,000) Equity shares of ₹ 10/- each | 25,000 | 25,000 |
| | 25,000 | 25,000 |
| **Issued, Subscribed and Paid up** | | |
| 2,377,826 (previous year 2,377,826) Equity Shares of ₹ 10/- each | 23,778 | 23,778 |
| | **23,778** | **23,778** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | Amount | No. of equity shares | Amount |
| Number of shares at the beginning of the period | 2,377,826 | 23,778 | 2,377,826 | 23,778 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **2,377,826** | **23,778** | **2,377,826** | **23,778** |

**(b) Terms/rights attached to shares**

The company has only one class of equity share having a par value of ₹ 10/- per share . Each holder of equity share is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | % holding in the class | No. of equity shares | % holding in the class |
| Dr Reddy’s laboratories Ltd | 2,377,816 | 99.99 | 2,377,816 | 99.99 |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| **Revaluation Reserve** | 1,436,964 | 1,436,964 |
| | **1,436,964** | **1,436,964** |
| **Deficit** | | |
| Balance in profit and loss account brought forward | (14,162) | (14,157) |
| Add: Transfer from General Reserve | - | - |
| | (14,162) | (14,157) |
| Add: Current Year Loss | (2) | (5) |
| Loss carried forward | **(14,164)** | **(14,162)** |
| **Total Balance Carried Forward** | **1,422,800** | **1,422,802** |
| **2.3 : Other Current liabilities** | | |
| Payable to holding company -Dr. Reddy Laboratories Ltd. | 3,600 | 3,600 |
| Outstanding Liabilities | 15 | 15 |
| | **3,615** | **3,615** |
| **2.4 : Short-term provisions** | | |
| Provision for tax | 13 | 13 |
| | **13** | **13** |

## Note 2: Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | Depreciation / Amortization | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | As at 31.03.2013 | As at 01.04.12 | For the year | Deletions | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| ***Tangible Assets*** | | | | | | | | | | |
| Land | 1,449,989 | - | - | 1,449,989 | - | - | - | - | 1,449,989 | 1,449,989 |
| **Total Tangible Assets** | **1,449,989** | **-** | **-** | **1,449,989** | **-** | **-** | **-** | **-** | **1,449,989** | **1,449,989** |
| Previous year | 1,449,942 | 47 | - | 1,449,989 | - | - | - | - | 1,449,989 | |

**Note 2: Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6: Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 102 | 104 |
| In deposit account | 114 | 114 |
| | **216** | **218** |
| **2.7: Short-term loans and advances** | | |
| TDS Receivable | 1 | 1 |
| | **1** | **1** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.8 : Other income** | | |
| Interest on fixed deposits | 9 | 10 |
| | **9** | **10** |
| **2.9 : Other expenses** | | |
| Travelling and conveyance | - | 1 |
| Rates and taxes | - | 2 |
| Auditors' remuneration | 11 | 11 |
| Interest - Others | - | 1 |
| | **11** | **15** |
| **2.10 : Earnings per share** | | |
| Loss for the year | (2) | (5) |
| **Shares:** | | |
| Weighted average number of equity shares outstanding during the year - Basic | 2,377,826 | 2,377,826 |
| Weighted average number of equity shares outstanding during the year - Diluted | 2,377,826 | 2,377,826 |
| Basic Earnings / (Loss) in ₹ per share | (0.001) | (0.002) |
| Diluted Earnings / (Loss) in ₹ per share | (0.001) | (0.002) |

## Note 2: Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.11: Related Parties**

The company has the following amount due to related parties :

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Due to (included in other current liabilities) : | | |
| Dr Reddy's Laboratories Ltd | 3,600 | 3,600 |

**2.12 : Comparitive Figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year presentation

As per our report of even date attached

*for* **Satyanarayana & Co.**
*Chartered Accountants*
ICAI FRN No. 003680S

**G. Venkataratnam**
*Partner*
Membership No. 19455

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (1,992) | (3,731) |
| Balance brought forward | (2,366) | 1,365 |
| Balance carried forward to Balance Sheet | (4,358) | (2,366) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| Place : Hyderabad | **R. Ananthanarayanan** | **V. Viswanath** |
| Date : 10 May 2013 | Director | Director |

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Industrias Qumicas Falcon De Mexico, S.A. de CV** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 5,939 | 5,939 |
| Reserves and surplus | 2.2 | (4,733) | (2,848) |
| | | **1,206** | **3,091** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | - | 17,316 |
| | | **-** | **17,316** |
| **Current liabilities** | | | |
| Short term borrowings | 2.3 | 18,481 | - |
| Trade payables | 2.4 | 10,977 | 6,941 |
| Other current liabilities | 2.5 | 2,625 | 3,817 |
| Short term provisions | 2.6 | 2,106 | 1,194 |
| | | **34,189** | **11,952** |
| | **TOTAL** | **35,395** | **32,359** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 12,856 | 11,516 |
| Capital work-in-progress | | 728 | 895 |
| Deferred tax assets, net | 2.19 | 1,958 | 1,874 |
| Long term loans and advances | 2.8 | 5 | - |
| | | **15,547** | **14,285** |
| **Current assets** | | | |
| Inventories | 2.9 | 6,937 | 8,466 |
| Trade receivables | 2.10 | 6,619 | 6,521 |
| Cash and bank balances | 2.11 | 1,848 | 987 |
| Short term loans and advances | 2.12 | 4,069 | 1,756 |
| Other current assets | 2.13 | 375 | 344 |
| | | **19,848** | **18,074** |
| | **TOTAL** | **35,395** | **32,359** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**R. Ananthanarayanan**
Director

**V. Viswanath**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 28,945 | 20,594 |
| Other operating revenues | | 1,021 | 186 |
| **Revenue from operations** | | **29,966** | **20,780** |
| Other income | 2.14 | 116 | 21 |
| **Total revenue** | | **30,082** | **20,801** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 14,096 | 9,998 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.15 | 1,126 | 143 |
| Conversion charges | | 976 | 119 |
| Employee benefits expense | 2.16 | 7,362 | 7,108 |
| Finance costs | 2.17 | 1,294 | 1,081 |
| Depreciation and amortization expense | 2.7 | 1,157 | 1,011 |
| Other expenses | 2.18 | 6,147 | 6,360 |
| **Total expenses** | | **32,159** | **25,821** |
| **Profit / (Loss) before tax** | | **(2,077)** | **(5,020)** |
| Tax expense | | | |
| Current tax | | (190) | (3) |
| Deferred tax | | 105 | (1,286) |
| **Profit / (Loss) for the year** | | **(1,992)** | **(3,731)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**R. Ananthanarayanan**
Director

**V. Viswanath**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |
| Vehicles | 3 to 5 |

**e) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**f) Retirement benefits**

*Defined contribution plan*

The Company's contributions to defined contribution plans are charged to profit or loss as and when the services are received from the employees.

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

*Defined benefit plans*

The liability in respect of defined benefit plans and other post-employment benefits is calculated using the projected unit credit method and spread over the period during which the benefit is expected to be derived from employees' services, consistent with the advice of qualified actuaries. The long term obligations are measured at present value of estimated future cash flows discounted at rates reflecting the yields on risk free government bonds that have maturity dates approximating the terms of the Company's obligations. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

All actuarial gains and losses arising during the year are recognized in the statement of profit and loss.

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**h) Revenue recognition**

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*Service Income*

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

**i) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 140,526,270 (previous year 140,526,270) pesos* | 5,939 | 5,939 |
| **Issued** | | |
| 140,526,270 (previous year 140,526,270) pesos* | 5,939 | 5,939 |
| **Subscribed and paid-up** | | |
| 140,526,270 (previous year 140,526,270) pesos* | 5,939 | 5,939 |
| | **5,939** | **5,939** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (482) | (608) |
| Additions / (deductions) during the year | 107 | 126 |
| | (375) | (482) |
| ***Deficit*** | | |
| Balance at the beginning of the year | (2,366) | 1,365 |
| Add: Current year loss | (1,992) | (3,731) |
| Balance carried forward | (4,358) | (2,366) |
| | **(4,733)** | **(2,848)** |
| **2.3 : Borrowings** | | |
| a) **Long term borrowings** | | |
| Borrowings from holding company and other group companies | - | 17,316 |
| | **-** | **17,316** |
| b) **Short term borrowings** | | |
| Borrowings from holding company and other group companies | 18,481 | - |
| | **18,481** | **-** |
| **2.4 : Trade Payables** | | |
| Payable to holding company and other group companies | 9,484 | 6,360 |
| Payables to others | 1,493 | 581 |
| | **10,977** | **6,941** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.5 : Other current liabilities** | | |
| Due to capital creditors | 259 | 212 |
| Due to holding company and other group companies | 95 | 105 |
| Accrued expenses | 680 | 1,887 |
| Salary and Bonus payable | 90 | 85 |
| Due to statutory authorities | - | 144 |
| Other current liabilities | 1,501 | 1,384 |
| | **2,625** | **3,817** |
| **2.6 : Short term provisions** | | |
| Provision for employee benefits | 2,106 | 1,194 |
| | **2,106** | **1,194** |

### Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land | 3,285 | - | - | 347 | 3,632 | - | - | - | - | - | 3,632 | 3,285 |
| Building | 1,709 | 47 | - | 173 | 1,929 | 510 | 89 | - | 55 | 654 | 1,274 | 1,199 |
| Plant & Machinery | 10,588 | 944 | - | 1,117 | 12,649 | 4,149 | 756 | - | 420 | 5,325 | 7,324 | 6,439 |
| Furniture and Fixtures | 653 | 61 | 23 | 67 | 758 | 294 | 193 | 2 | 61 | 546 | 212 | 359 |
| Vehicles | 247 | 71 | 66 | 26 | 278 | 65 | 44 | 37 | 8 | 80 | 198 | 182 |
| Computers | 229 | 221 | - | 39 | 489 | 177 | 75 | - | 21 | 273 | 216 | 52 |
| **TOTAL** | **16,711** | **1,344** | **89** | **1,769** | **19,754** | **5,195** | **1,157** | **39** | **565** | **6,878** | **12,856** | **11,516** |
| Previous year | 15,059 | 788 | 128 | 991 | 16,711 | 3,957 | 1,011 | 92 | 318 | 5,195 | 11,516 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Capital advances for purchase of fixed assets | 4 | - |
| Security Deposits | 1 | - |
| | **5** | **-** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 4,357 | 4,689 |
| Work-in-progress | 1,454 | 1,975 |
| Finished goods | - | 605 |
| Stores and spares | 1,088 | 1,156 |
| Packing materials | 38 | 42 |
| | **6,937** | **8,466** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 3,342 | 3,589 |
| Receivables from holding company and other group companies | 3,277 | 2,932 |
| | 6,619 | 6,521 |
| *Less*: Provision for doubtful debts | - | - |
| | **6,619** | **6,521** |
| **2.11 : Cash and bank balances** | | |
| Cash on hand | 2 | 3 |
| Bank balances | | |
| In current accounts | 1,846 | 984 |
| | **1,848** | **987** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.12 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 780 | 33 |
| Staff loans and advances | 4 | 3 |
| Advance tax, net of provision for income taxes | 1,014 | 545 |
| Balances with Statutory Agencies | 1,860 | 836 |
| Prepaid expenses | 410 | 338 |
| Other Advances | 1 | 1 |
| | **4,069** | **1,756** |
| **2.13 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 375 | 344 |
| | **375** | **344** |

**Note 2 : Notes to Financial Statementss (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | | For the year ended 31 March 2012 | |
|---|---|---|---|---|
| **2.14 : Other income** | | | | |
| Interest income | | 3 | | 4 |
| Profit on sale of fixed assets, net | | - | | 8 |
| Foreign exchange gain, net | | 113 | | 9 |
| | | **116** | | **21** |
| **2.15 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | |
| *Net (increase) / decrease in stock* | | | | |
| *Opening* | | | | |
| Work-in-process | 1,975 | | 2,658 | |
| Finished goods | 605 | 2,580 | 65 | 2,723 |
| *Closing* | | | | |
| Work-in-process | 1,454 | | 1,975 | |
| Finished goods | - | 1,454 | 605 | 2,580 |
| *Net (increase)* | | **1,126** | | **143** |
| **2.16 : Employee benefits expense** | | | | |
| Salaries, wages and bonus | | 7,083 | | 6,605 |
| Contribution to provident and other funds | | 22 | | 25 |
| Staff welfare expenses | | 257 | | 478 |
| | | **7,362** | | **7,108** |
| **2.17 : Finance costs** | | | | |
| Interest Expenses | | 1,294 | | 1,081 |
| | | **1,294** | | **1,081** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.18 : Other expense** | | |
| Consumption of Stores and spare parts | 649 | 1,302 |
| Legal and professional | 322 | 286 |
| Carriage outward | 114 | 104 |
| Rates and taxes | 71 | 55 |
| Commision on Sales | 14 | - |
| Other selling expenses | 147 | 6 |
| Repairs and maintenance | | |
| Buildings | 3 | - |
| Plant and machinery | 1,085 | 999 |
| Others | 503 | 510 |
| Power and fuel | 2,488 | 2,532 |
| Travelling and conveyance | 85 | 38 |
| Communication | 100 | 77 |
| Rent | 14 | 9 |
| Insurance | 128 | 107 |
| Donations | - | 8 |
| Printing and stationery | 19 | 16 |
| Bank charges | 16 | 11 |
| Loss on sale of fixed assets, net | 1 | - |
| Miscellaneous | 388 | 300 |
| | **6,147** | **6,360** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.19: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets/(liabilities)** | | |
| Trade receivables | 151 | 137 |
| Other Current assets | 182 | 143 |
| Other Current Liabilities | 557 | 334 |
| Inventories | 1,057 | 1,156 |
| Fixed assets | (657) | (697) |
| Loss carry forward | 668 | 801 |
| **Deferred tax asset, net** | **1,958** | **1,874** |

**2.20: Commitments and contingent liabilities**

Loss contingencies arising from claims, litigations, assessments, fines, penalties etc. are provided for when it is probable that a liability may be incurred, and the amount can be reasonably estimated.

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) | 47 | 47 |

**2.21: Related party disclosures**

The company has the following amounts dut to / from related party transactions:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in Trade Receivables): | | |
| | Dr. Reddy’s Laboratories Inc. | 1,268 | 253 |
| | Dr. Reddy’s Laboratories SA | 2,009 | 2,679 |
| ii. | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy’s Laboratories Limited | 9,482 | 6,176 |
| | Dr. Reddy’s Laboratories Inc. | 2 | 184 |
| iii. | Due to related parties (included in Borrowings): | | |
| | Dr. Reddy’s Laboratories Limited | 18,479 | 16,146 |
| | Dr. Reddy’s Laboratories Inc. | 2 | 1275 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.22: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.23:** The Company, incorporated in Mexico, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Director**

**R. Ananthanarayanan**
Director

**V. Viswanath**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit for the period after taxation | 1,804 | 1,024 |
| Balance brought forward | (3,797) | (4,821) |
| Balance carried forward to Balance Sheet | (1,993) | (3,797) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy** — Director
**G V Prasad** — Director

Place : Hyderabad
Date : 10 May 2013

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Kunshan Rotam Reddy Pharmaceuticals Company Limited,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 7,905 | 7,905 |
| Reserves and surplus | 2.2 | (724) | (2,946) |
| | | **7,181** | **4,959** |
| **Current liabilities** | | | |
| Short term borrowings | 2.3 | - | 930 |
| Trade payables | 2.4 | 2,595 | 2,471 |
| Other current liabilities | 2.5 | 2,940 | 1,377 |
| Short term provisions | 2.6 | - | 90 |
| | | **5,535** | **4,868** |
| | **TOTAL** | **12,716** | **9,827** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 2,541 | 1,883 |
| Intangible assets | 2.7 | 82 | 95 |
| Capital work-in-progress | | 94 | 283 |
| Deferred tax assets, net | 2.21 | 138 | 126 |
| Long term loans and advances | 2.8 | 3 | 7 |
| | | **2,858** | **2,393** |
| **Current assets** | | | |
| Inventories | 2.9 | 2,419 | 1,856 |
| Trade receivables | 2.10 | 3,119 | 2,695 |
| Cash and bank balances | 2.11 | 2,453 | 553 |
| Short term loans and advances | 2.12 | 617 | 511 |
| Other current assets | 2.13 | 1,250 | 1,818 |
| | | **9,858** | **7,433** |
| | **TOTAL** | **12,716** | **9,827** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G V Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 19,154 | 12,384 |
| Other operating revenues | | 97 | 48 |
| **Revenue from operations** | | **19,251** | **12,432** |
| Other income | 2.14 | 12 | 76 |
| **Total revenue** | | **19,263** | **12,508** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 5,137 | 3,547 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.15 | (197) | (277) |
| Employee benefits expense | 2.16 | 4,412 | 2,987 |
| Finance costs | 2.17 | 41 | 74 |
| Depreciation and amortization expense | 2.7 | 79 | 60 |
| Research and development | | 163 | 140 |
| Other expenses | 2.18 | 7,519 | 4,791 |
| **Total expenses** | | **17,154** | **11,323** |
| **Profit before tax** | | **2,110** | **1,185** |
| Tax expense | | | |
| Current tax | | 311 | 192 |
| Deferred tax | | (4) | (30) |
| **Profit for the year** | | **1,804** | **1,024** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G V Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | |
| Factory and administrative buildings | 20 to 50 |
| Ancillary structures | 3 to 15 |
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

**e) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 3 to 16 |

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances.

**j) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**k) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| USD 29,990,000 (previous year 29,990,000)* | 12,896 | 12,896 |
| **Issued** | | |
| USD 18,330,110 (previous year 18,330,110)* | 7,905 | 7,905 |
| **Subscribed and paid-up** | | |
| USD 18,330,110 (previous year 18,330,110)* | 7,905 | 7,905 |
| | **7,905** | **7,905** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 851 | 175 |
| Additions / (deductions) during the year | 418 | 676 |
| | 1,269 | 851 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (3,797) | (4,821) |
| Add: Current year profit | 1,804 | 1,024 |
| Balance carried forward | (1,993) | (3,797) |
| | **(724)** | **(2,946)** |
| **2.3 : Short term borrowings** | | |
| Other short term loans | - | 930 |
| | **-** | **930** |
| **2.4 : Trade Payables** | | |
| Payables to others | 2,595 | 2,471 |
| | **2,595** | **2,471** |
| **2.5 : Other current liabilities** | | |
| Other current liabilities | 2,940 | 1,377 |
| | **2,940** | **1,377** |
| **2.6 : Short term provisions** | | |
| Income tax payable | - | 90 |
| | **-** | **90** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Description** | **As at 01.04.2012** | **Addition** | **Deletions** | **Forex** | **As at 31.03.13** | **As at 01.04.12** | **For the Year** | **Deletions** | **Forex** | **31.03.13** | **As at 31.03.13** | **As at 31.03.2012** |
| Leasehold land | 443 | - | - | 41 | 484 | 136 | 4 | - | 20 | 160 | 324 | 308 |
| Vehicles | 92 | - | - | 7 | 99 | 67 | 4 | - | 5 | 76 | 23 | 25 |
| Buildings | 2,163 | 498 | - | 231 | 2,892 | 1,097 | 44 | - | 223 | 1,364 | 1,528 | 1,066 |
| Plant & Machinery | 673 | 144 | - | 82 | 898 | 456 | 14 | - | 78 | 548 | 350 | 217 |
| Lab Equipment | 544 | 30 | - | 60 | 634 | 320 | 10 | - | 57 | 387 | 247 | 224 |
| Office Equipment | 226 | 28 | 8 | 28 | 274 | 182 | 3 | 6 | 26 | 205 | 69 | 44 |
| **Total Tangible Assets (A)** | **4,141** | **700** | **8** | **449** | **5,282** | **2,258** | **79** | **6** | **410** | **2,741** | **2,541** | **1,883** |
| Trade Marks | 167 | - | 49 | 14 | 132 | 72 | - | 28 | 6 | 50 | 82 | 95 |
| **Total Intangible Assets (B)** | **167** | **-** | **49** | **14** | **132** | **72** | **-** | **28** | **6** | **50** | **82** | **95** |
| **TOTAL (A+B)** | **4,308** | **700** | **57** | **463** | **5,414** | **2,330** | **79** | **34** | **416** | **2,791** | **2,623** | **1,978** |
| Previous year | 3,792 | 260 | 53 | 309 | 4,308 | 2,130 | 60 | - | 140 | 2,330 | 1,978 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | 3 | 7 |
| | **3** | **7** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Raw materials | 1,260 | 913 |
| Work-in-progress | 217 | 212 |
| Finished goods | 885 | 693 |
| Stores and spares | 57 | 38 |
| | **2,419** | **1,856** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | - | - |
| Considered doubtful | 115 | 179 |
| Other debts | | |
| Considered good | 3,119 | 2,695 |
| | 3,234 | 2,874 |
| *Less*: Provision for doubtful debts | (115) | (179) |
| | **3,119** | **2,695** |
| **2.11 : Cash and bank balances** | | |
| Cash on hand | - | 2 |
| Bank balances | | |
| In current accounts | 2,453 | 551 |
| | **2,453** | **553** |
| **2.12 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advance tax, net of provision for income taxes | 220 | 203 |
| Prepaid expenses | 29 | 9 |
| Other Advances | 368 | 299 |
| | **617** | **511** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.13 : Other current assets** | | |
| ***Considered good*** | | |
| Claims receivable | 974 | 1,498 |
| Other current assets | 276 | 320 |
| | **1,250** | **1,818** |

| Particulars | | For the year ended 31 March 2013 | | For the year ended 31 March 2012 |
|---|---|---|---|---|
| **2.14 : Other income** | | | | |
| Foreign exchange gain, net | | 12 | | 76 |
| | | **12** | | **76** |
| **2.15 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | |
| *Net (increase) / decrease in stock* | | | | |
| Opening | | | | |
| Work-in-process | 212 | | 99 | |
| Finished goods | 693 | 905 | 530 | 629 |
| *Closing* | | | | |
| Work-in-process | 217 | | 212 | |
| Finished goods | 885 | 1,102 | 693 | 905 |
| *Net (increase)* | | **(197)** | | **(277)** |
| **2.16 : Employee benefits expense** | | | | |
| Salaries, wages and bonus | | 4,169 | | 2,809 |
| Contribution to provident and other funds | | 116 | | 89 |
| Staff welfare expenses | | 127 | | 89 |
| | | **4,412** | | **2,987** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.17 : Finance costs** | | |
| Interest Expenses | 41 | 74 |
| | **41** | **74** |
| **2.18 : Other expense** | | |
| Consumption of Stores and spare parts | 24 | 76 |
| Legal and professional | 24 | 2 |
| Rates and taxes | 325 | 220 |
| Other selling expenses | 2,169 | 1,393 |
| Travelling and conveyance | 4,139 | 2,336 |
| Communication | 33 | 24 |
| Insurance | 7 | 10 |
| Printing and stationery | 6 | 4 |
| Bank charges | 10 | 7 |
| Advertisements | 7 | 6 |
| Miscellaneous | 775 | 713 |
| | **7,519** | **4,791** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.19 Contingencies and commitment liabilities**

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) | Nil | 16 |

**2.20: Deferred taxation**

Deferred tax asset, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Inventories | 94 | 119 |
| Fixed Assets | 29 | 5 |
| Other Current assets | 15 | 2 |
| **Deferred Tax Asset, Net** | **138** | **126** |

**2.21: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.22:** The Company is incorporated in the People's Republic of China. Dr. Reddy's Laboratories Limited holds 51.33% of the share capital of the Company.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G V Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit/ (Loss) for the period after taxation | (940,739) | 353,064 |
| Balance brought forward | 1,981,224 | 1,628,160 |
| Balance carried forward to Balance Sheet | 1,040,485 | 1,981,224 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Milorad Vujnovic** — Director

**Satish Reddy** — Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS’ REPORT

**To**
**The Board of Directors**
Dr. Reddy’s Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Lacock Holdings Limited,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor’s 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 1,325 | 1,325 |
| Reserves and surplus | 2.2 | 19,012,029 | 19,591,135 |
| | | **19,013,354** | **19,592,460** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 10,338,855 | 9,123,092 |
| | | **10,338,855** | **9,123,092** |
| **Current liablities** | | | |
| Other current liabilities | 2.4 | 3,089 | 696,036 |
| Short term provisions | 2.5 | 19,362 | 22,160 |
| | | **22,451** | **718,196** |
| | **TOTAL** | **29,374,660** | **29,433,748** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Non current investments | 2.6 | 5,806,125 | 5,868,919 |
| Long term loans and advances | 2.7 | 23,557,810 | 23,506,836 |
| | | **29,363,935** | **29,375,755** |
| **Current assets** | | | |
| Cash and bank balances | 2.8 | 10,485 | 57,759 |
| Other current assets | 2.9 | 240 | 234 |
| | | **10,725** | **57,993** |
| | **TOTAL** | **29,374,660** | **29,433,748** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Milorad Vujnovic**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.10 | 616,450 | 833,219 |
| **Total revenue** | | **616,450** | **833,219** |
| **Expenses** | | | |
| Finance costs | 2.11 | 306,702 | 410,696 |
| Other expenses | 2.12 | 1,132,123 | 5,028 |
| Permanent reduction in carrying amount of long term investments | | 62,794 | - |
| **Total expenses** | | **1,501,619** | **415,724** |
| **Profit / (loss) before tax** | | **(885,169)** | **417,495** |
| Tax expense | | | |
| Current tax | | 55,570 | 64,431 |
| Deferred tax | | - | - |
| **Profit / (loss) for the year** | | **(940,739)** | **353,064** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Milorad Vujnovic**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**d) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**e) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**f) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**g) Income-tax expense**

Income tax expense comprises current tax or deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**h) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 50,000 (previous year 50,000) Equity shares of Euro 1.71 each | 4,133 | 4,133 |
| **Issued** | | |
| 16,033 (previous year 16,033) Equity shares of Euro 1.71 each | 1,325 | 1,325 |
| **Subscribed and paid-up** | | |
| 16,033 (previous year 16,033) Equity shares of Euro 1.71 each | 1,325 | 1,325 |
| | **1,325** | **1,325** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 16,033 | 1,325 | 16,033 | 1,325 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **16,033** | **1,325** | **16,033** | **1,325** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1.71 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | 16,033 | 100 | 16,033 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 1,511,272 | 617,602 |
| Additions / (deductions) during the year | 361,633 | 893,670 |
| | 1,872,905 | 1,511,272 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 16,098,639 | 16,098,639 |
| Additions / (deductions) during the year | - | - |
| | 16,098,639 | 16,098,639 |
| ***Surplus*** | | |
| Balance at the beginning of the year | 1,981,224 | 1,628,160 |
| Add: Current year profit / (loss) | (940,739) | 353,064 |
| Balance carried forward | 1,040,485 | 1,981,224 |
| | **19,012,029** | **19,591,135** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 10,338,855 | 9,123,092 |
| | **10,338,855** | **9,123,092** |
| **2.4 : Other current liabilities** | | |
| Due to holding company and other group companies | - | 694,838 |
| Other current liabilities | 3,089 | 1,198 |
| | **3,089** | **696,036** |
| **2.5 : Short term provisions** | | |
| Income tax payable | 19,362 | 22,160 |
| | **19,362** | **22,160** |
| **2.6 : Non current investment** | | |
| Investments in Subsidiaries | 5,868,919 | 5,868,919 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | (62,794) | - |
| | **5,806,125** | **5,868,919** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Long term loans and advances** | | |
| **Unsecured** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 24,648,534 | 23,506,836 |
| | 24,648,534 | 23,506,836 |
| *Less*: Provision for loan to holding company and other group companies | (1,090,724) | - |
| | **23,557,810** | **23,506,836** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 10,485 | 57,759 |
| | **10,485** | **57,759** |
| **2.9 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 240 | 234 |
| | **240** | **234** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other income** | | |
| Interest income | 616,450 | 833,219 |
| | **616,450** | **833,219** |
| **2.11 : Finance costs** | | |
| Interest expense | 306,702 | 410,696 |
| | **306,702** | **410,696** |
| **2.12 : Other expense** | | |
| Legal and professional | 4,933 | 4,564 |
| Rates and taxes | 2,870 | - |
| Forex | - | 306 |
| Provision - Advances & Debtors | 1,124,097 | - |
| Bank charges | 223 | 158 |
| | **1,132,123** | **5,028** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

### 2.13: Contingencies and Commitments

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

### 2.14: Related party disclosures

The Company has following amounts due from/ to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in long term borrowings and other current liabilities) | | |
| | Dr. Reddy's Laboratories Limited | - | 694,838 |
| | Dr. Reddy's Laboratories SA | 10,338,855 | 9,123,092 |
| ii. | Due from related parties (included in long term loans & Advances) | | |
| | Reddy Holding GmbH | 23,557,810 | 22,509,523 |
| | Reddy Pharma Italia | 1,090,724 | 997,313 |
| iii. | Provisions outstanding at the end of the year on dues from related parties | | |
| | Reddy Pharma Italia | 1,090,724 | - |

### 2.15: Comparative figures

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.16:** The Company, incorporated in Cyprus, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**Milorad Vujnovic**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Profit for the period after taxation | 68,294 |
| Balance brought forward | (829,146) |
| Balance carried forward to Balance Sheet | (760,852) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the 31 March 2013 and of profit of the Company for the period 15 February 2013 to 31 March 2013;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**OctoPlus N.V.**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoPlus Development B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 1,296 |
| Reserves and surplus | 2.2 | 371,880 |
| | | **373,176** |
| **Non current liabilities** | | |
| Long term borrowings | 2.3 | 8,771 |
| | | **8,771** |
| **Current liabilities** | | |
| Trade payables | 2.4 | 34,528 |
| Other current liabilities | 2.5 | 728,461 |
| | | **762,989** |
| | **TOTAL** | **1,144,936** |
| **ASSETS** | | |
| **Non current assets** | | |
| Fixed assets | | |
| Tangible assets | 2.6 | 464,562 |
| Intangible assets | 2.6 | 3,004 |
| Capital work-in-progress | | 706 |
| | | **468,272** |
| **Current assets** | | |
| Inventories | 2.7 | 40,445 |
| Trade receivables | 2.8 | 86,767 |
| Cash and bank balances | 2.9 | 9,992 |
| Short term loans and advances | 2.10 | 16,515 |
| Other current assets | 2.11 | 522,945 |
| | | **676,664** |
| | **TOTAL** | **1,144,936** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.
As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| Service income | | 51,992 |
| Other operating revenues | | 53,268 |
| **Revenue from operations** | | **105,260** |
| Other income | | - |
| **Total revenue** | | **105,260** |
| **Expenses** | | |
| Cost of material consumed (including packing material consumed) | | 1,411 |
| Employee benefits expense | 2.12 | 18,963 |
| Finance costs | 2.13 | 133 |
| Depreciation and amortization expense | 2.6 | 11,520 |
| Other expenses | 2.14 | 4,939 |
| **Total expenses** | | **36,966** |
| **Profit before tax** | | **68,294** |
| Tax expense | 2.17 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit for the period** | | **68,294** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Plant and machinery | 3 to 15 |
| Laboratory equipment | 4 to 10 |
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

**f) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Software | 3 |

**g) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**h) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**j) Service income**

Revenue from services rendered, which primarily relate to contract research, is recognized in the statement of profit and loss as the underlying services are performed. Upfront non-refundable payments received under these arrangements are deferred and recognised as revenue over the expected period over which the related services are expected to be performed.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 100,000 shares of Euro 1 each | 7,140 |
| **Issued** | |
| 18,151 shares of Euro 1 each | 1,296 |
| **Subscribed and paid-up** | |
| 18,151 shares of Euro 1 each | 1,296 |
| | **1,296** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 18,151 | 1,296 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 18,151 | 1,296 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | **No of equity shares held** | **% of equity shares held** |
| OctoPlus N.V. | 18,151 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | (1,049) |
| | (1,049) |
| ***Securities premium reserve*** | |
| Balance as at 15 February 2013 | 972,930 |
| Additions / (deductions) during the period | - |
| | 972,930 |
| ***General Reserve*** | |
| Balance as at 15 February 2013 | 160,851 |
| Additions / (deductions) during the period | - |
| | 160,851 |
| ***Surplus / (deficit)*** | |
| Balance as at 15 February 2013 | (829,146) |
| Add: Current period profit | 68,294 |
| Balance carried forward | (760,852) |
| | **371,880** |
| **2.3 : Long term borrowings** | |
| Long term maturities of finance lease obligations | 8,771 |
| | **8,771** |
| **2.4 : Trade Payables** | |
| Payable to others | 34,528 |
| | **34,528** |
| **2.5 : Other current liabilities** | |
| Accrued expenses | 17,658 |
| Current maturities of finance lease obligations | 34,625 |
| Due to statutory authorities | 1,034 |
| Due to holding company and other group companies | 491,171 |
| Other current liabilities | 183,973 |
| | **728,461** |

## Note 2 : Notes to financial statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | | Depreciation / Amortisation | | | | | Net Block |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Acqui- sition | Addition | Deletions | Forex | As at 31.03.13 | As at 01.04.12 | For the Year | Deletions | Forex | As at 31.03.13 | As at 31.03.13 |
| Plant & Machinery | - | 441,877 | - | - | (4,174) | 437,703 | - | 9,876 | - | (146) | 9,730 | 427,973 |
| Lab Equipment | - | 33,822 | - | - | (319) | 33,502 | - | 990 | - | (15) | 975 | 32,527 |
| Office equipment | - | 2,794 | - | - | (31) | 2,763 | - | 244 | - | (4) | 240 | 2,523 |
| Computers | - | 1,697 | - | - | (17) | 1,680 | - | 143 | - | (2) | 141 | 1,539 |
| **Total Tangible Assets (A)** | **-** | **480,190** | **-** | **-** | **(4,541)** | **475,648** | **-** | **11,253** | **-** | **(167)** | **11,086** | **464,562** |
| Intangibles | - | 3,300 | - | - | (31) | 3,269 | - | 267 | - | (2) | 265 | 3,004 |
| **Total Intangible Assets (B)** | **-** | **3,300** | **-** | **-** | **(31)** | **3,269** | **-** | **267** | **-** | **(2)** | **265** | **3,004** |
| **TOTAL (A+B)** | **-** | **483,490** | **-** | **-** | **(4,573)** | **478,917** | **-** | **11,520** | **-** | **(169)** | **11,351** | **467,566** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.7 : Inventories** | |
| **(Valued on weighted average basis)** | |
| Raw materials | 40,445 |
| | **40,445** |
| **2.8 : Trade Receivables** | |
| **(Unsecured)** | |
| Debts outstanding for a period exceeding six months | - |
| Other debts | |
| Considered good | 86,767 |
| | 86,767 |
| *Less*: Provision for doubtful debts | - |
| | **86,767** |
| **2.9 : Cash and bank balances** | |
| Cash on hand | - |
| Bank balances | |
| In current accounts | 9,992 |
| | **9,992** |
| **2.10 : Short term loans and advances** | |
| **(Unsecured)** | |
| ***Considered good*** | |
| Advances to material suppliers | 7,321 |
| Prepaid expenses | 9,194 |
| | **16,515** |
| **2.11 : Other current assets** | |
| ***Considered good*** | |
| Other receivables from holding company and other group companies | 522,945 |
| | **522,945** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.12 : Employee benefits expense** | |
| Salaries, wages and bonus | 14,575 |
| Contribution to provident and other funds | 2,412 |
| Staff welfare expenses | 1,976 |
| | **18,963** |
| **2.13 : Finance costs** | |
| Interest Expenses | 133 |
| | **133** |
| **2.14 : Other expense** | |
| Legal and professional | 344 |
| Carriage outward | 464 |
| Repairs and maintenance | |
| Plant and machinery | 2,463 |
| Others | 1,105 |
| Power and fuel | 118 |
| Travelling and conveyance | 24 |
| Communication | 157 |
| Rent | 57 |
| Forex | 33 |
| Printing and stationery | 121 |
| Bank charges | 53 |
| | **4,939** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.15: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013.

**2.16: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due to related parties (included in Other current liabilities) | |
| | OctoShare B.V. | 450,182 |
| | OctoPlus Technologies B.V. | 40,989 |
| ii. | Due from related parties (included in Other current assets) | |
| | OctoPlus N.V. | 124,792 |
| | OctoPlus Sciences B.V. | 53,142 |
| | OctoPlus PolyActive Sciences B.V. | 3 |
| | Chienna B.V. | 345,008 |

**2.17:** Tax expense for the company is computed and presented together with the parent company's (OctoPlus N.V.) financial as per the tax laws of Netherlands.

**2.18: Comparative Figures :**

The company is a 100% subsidiary of OctoPlus N.V.

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Loss for the period after taxation | (75,405) |
| Balance brought forward | (2,676,253) |
| Balance carried forward to Balance Sheet | (2,751,658) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May, 2013

**Jan H. Egberts**
CEO

**Susan Swarte**
CFO

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoPlus N.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 451,292 |
| Reserves and surplus | 2.2 | 789,713 |
| | | **1,241,005** |
| **Non current liabilities** | | |
| Long term borrowings | 2.3 | 776,259 |
| | | **776,259** |
| **Current liabilities** | | |
| Trade payables | 2.4 | 50,657 |
| Other current liabilities | 2.5 | 344,709 |
| Short term provisions | 2.6 | 1,979 |
| | | **397,345** |
| | **TOTAL** | **2,414,609** |
| **ASSETS** | | |
| **Non current assets** | | |
| Fixed assets | | |
| Tangible assets | 2.7 | 412,691 |
| Intangible assets | 2.7 | 16,887 |
| Non current investments | 2.8 | - |
| Deferred tax assets, net | 2.18 | 951 |
| | | **430,529** |
| **Current assets** | | |
| Trade receivables | 2.9 | 11,436 |
| Cash and bank balances | 2.10 | 73,904 |
| Short term loans and advances | 2.11 | 29,818 |
| Other current assets | 2.12 | 1,868,922 |
| | | **1,984,080** |
| | **TOTAL** | **2,414,609** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**Jan H. Egberts**
CEO

**Susan Swarte**
CFO

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| Other income | 2.13 | 5,898 |
| **Total revenue** | | **5,898** |
| **Expenses** | | |
| Employee benefits expense | 2.14 | 67,698 |
| Depreciation and amortization expense | 2.7 | 5,631 |
| Other expenses | 2.15 | 8,940 |
| **Total expenses** | | **82,269** |
| **Profit / (Loss) before tax** | | **(76,371)** |
| Tax expense | 2.19 | |
| Current tax | | - |
| Deferred tax | | (966) |
| **Profit / (Loss) for the period** | | **(75,405)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Jan H. Egberts**
CEO

**Susan Swarte**
CFO

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management’s estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Buildings | 10 |

**e) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management’s estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Goodwill | 10 |

**f) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**h) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**i) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**j) Leases**

The lease arrangement is classified as either a finance lease or an operating lease, at the inception of the lease, based on the substance of the lease arrangement.

*Finance leases*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Operating leases*

Other leases are operating leases, and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in the statement of profit and loss on a straight-line basis over the term of the lease.

## Note 2 : Notes to Financial Statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 80,000,000 shares of Euro 0.12 each | 685,412 |
| **Issued** | |
| 52,673,974 shares of Euro 0.12 each | 451,292 |
| **Subscribed and paid-up** | |
| 52,673,974 shares of Euro 0.12 each | 451,292 |
| | **451,292** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 52,673,974 | 451,292 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 52,673,974 | 451,292 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 0.12 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| Reddy Netherlands B.V. | 52,100,790 | 98.91 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | (10,905) |
| | (10,905) |
| ***Securities premium reserve*** | |
| Balance as at 15 February 2013 | 4,009,738 |
| Additions / (deductions) during the period | - |
| | 4,009,738 |
| ***General Reserve*** | |
| Balance as at 15 February 2013 | (457,462) |
| Additions / (deductions) during the period | - |
| | (457,462) |
| ***Deficit*** | |
| Balance as at 15 February 2013 | (2,676,253) |
| Add: Current period loss | (75,405) |
| Balance carried forward | (2,751,658) |
| | **789,713** |
| **2.3 : Long term borrowings** | |
| Long term maturities of finance lease obligations | 497,864 |
| Borrowings from holding company and other group companies | 278,395 |
| | **776,259** |
| **2.4 : Trade Payables** | |
| Payables to others | 50,657 |
| | **50,657** |
| **2.5 : Other current liabilities** | |
| Current maturities of finance lease obligations | 20,392 |
| Accrued expenses | 103,879 |
| Due to statutory authorities | 2,080 |
| Due to holding company and other group companies | 202,145 |
| Other current liabilities | 16,213 |
| | **344,709** |
| **2.6 : Short term provisions** | |
| Provision for employee benefits | 1,979 |
| | **1,979** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | | Depreciation / Amortisation | | | | | Net Block |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Acquisition | Addition | Deletions | Forex | As at 31.03.13 | As at 01.04.12 | For the Year | Deletions | Forex | As at 31.03.13 | As at 31.03.13 |
| Building | - | 420,388 | - | - | (3,971) | 416,417 | - | 3,782 | - | (56) | 3,726 | 412,691 |
| **Total Tangible Assets (A)** | **-** | **420,388** | **-** | **-** | **(3,971)** | **416,417** | **-** | **3,782** | **-** | **(56)** | **3,726** | **412,691** |
| Goodwill | - | 16,887 | - | - | - | 16,887 | - | - | - | - | - | 16,887 |
| **Total Intangible Assets (B)** | **-** | **16,887** | **-** | **-** | **-** | **16,887** | **-** | **-** | **-** | **-** | **-** | **16,887** |
| **TOTAL (A+B)** | **-** | **437,275** | **-** | **-** | **(3,971)** | **433,304** | **-** | **3,782** | **-** | **(56)** | **3,726** | **429,578** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.8 : Non current investments** | |
| Investments in Subsidiaries | 1,465,776 |
| Less: Provision for decline, other than temporary, in the value of long term investments | (1,465,776) |
| | **-** |
| **2.9 : Trade Receivables** | |
| **(Unsecured)** | |
| Debts outstanding for a period exceeding six months | - |
| Other debts | |
| Considered good | 10,413 |
| Receivables from holding company and other group companies | 1,023 |
| | **11,436** |
| **2.10 : Cash and bank balances** | |
| Cash on hand | - |
| Bank balances | |
| In current accounts | 73,904 |
| | **73,904** |
| **2.11 : Short term loans and advances** | |
| **(Unsecured)** | |
| ***Considered good*** | |
| Prepaid expenses | 29,818 |
| | **29,818** |
| **2.12 : Other current assets** | |
| ***Considered good*** | |
| Other receivables from holding company and other group companies | 1,868,922 |
| | **1,868,922** |

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.13 : Other income** | |
| Interest income | 5,835 |
| Foreign exchange gain, net | 63 |
| | **5,898** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.14 : Employee benefits expense** | |
| Salaries, wages and bonus | 64,908 |
| Contribution to provident and other funds | 1,409 |
| Staff welfare expenses | 1,381 |
| | **67,698** |
| **2.15 : Other expense** | |
| Legal and professional | 1,960 |
| Other selling expenses | 550 |
| Travelling and conveyance | 76 |
| Rent | 2,000 |
| Insurance | 1,931 |
| Bank charges | 12 |
| Auditors' remuneration | |
| Audit fees | 2,116 |
| Miscellaneous | 295 |
| | **8,940** |

**2.16: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013.

**2.17: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due to related parties (included in Long term borrowings) | |
| | Reddy Netherlands B.V. | 278,395 |
| ii. | Due from related parties (included in Trade receivables) | |
| | Dr. Reddy's Laboratories Limited | 1,023 |
| iii. | Due from related parties (included in Other current assets) | |
| | OctoShare B.V. | 140,009 |
| | OctoPlus Technologies B.V. | 1,317,222 |
| | Chienna B.V. | 411,691 |
| iv. | Due to related parties (included in Other current liabilities) | |
| | OctoPlus Sciences B.V. | 77,230 |
| | OctoPlus Development B.V. | 124,792 |
| | OctoPlus PolyActive Sciences B.V. | 123 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.18: Deferred Taxes**

Deferred tax asset, net included in balance sheet comprises of the following:

| Particulars | As at 31 March 2013 |
|---|---|
| **Deferred tax assets / (liabilities)** | |
| Fixed Assets | 951 |
| **Deferred tax asset, net** | **951** |

**2.19:** The tax expense for the company is computed and presented jointly with its subsidiary companies as per the tax laws of Netherlands.

**2.20: Comparative figures**

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Jan H. Egberts**
CEO

**Susan Swarte**
CFO

## DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013- 31 March 2013** |
|---|---|
| Loss for the period after taxation | (4) |
| Balance brought forward | (24) |
| Balance carried forward to Balance Sheet | (28) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May, 2013

**OctoPlus N.V.**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoPlus PolyActive Sciences B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 1,285 |
| Reserves and surplus | 2.2 | (62) |
| | | **1,223** |
| **Current liabilities** | | |
| Other current liabilities | 2.3 | 13 |
| | | **13** |
| | **TOTAL** | **1,236** |
| **ASSETS** | | |
| **Current assets** | | |
| Other current assets | 2.4 | 1,236 |
| | | **1,236** |
| | **TOTAL** | **1,236** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| **Total revenue** | | **-** |
| **Expenses** | | |
| Bank charges | | 4 |
| **Total expenses** | | **4** |
| **Profit / (Loss) before tax** | | **(4)** |
| Tax expense | 2.7 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit / (Loss) for the period** | | **(4)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**e) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 9,000,000 shares of Euro 0.01 each | 6,426 |
| **Issued** | |
| 1,800,000 shares of Euro 0.01 each | 1,285 |
| **Subscribed and paid-up** | |
| 1,800,000 shares of Euro 0.01 each | 1,285 |
| | **1,285** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 1,800,000 | 1,285 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 1,800,000 | 1,285 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 0.01 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| OctoPlus Sciences B.V. | 1,800,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | (34) |
| | (34) |
| ***Deficit*** | |
| Balance as at 15 February 2013 | (24) |
| Add: Current period loss | (4) |
| Balance carried forward | (28) |
| | **(62)** |
| **2.3 Other current liabilities** | |
| Due to holding company and other group companies | 13 |
| | **13** |
| **2.4 : Other current assets** | |
| ***Considered good*** | |
| Other receivables from holding company and other group companies | 1,236 |
| | **1,236** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.5 : Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year – NIL).

**2.6 : Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due to related parties (included in Other current liabilities) | |
| | OctoPlus Development B.V. | 3 |
| | OctoPlus Sciences B.V. | 10 |
| ii. | Due from related parties (included in Other current assets) | |
| | OctoPlus N.V. | 123 |
| | OctoPlus Sciences B.V. | 1,113 |

**2.7:** The tax expense for the company is computed and presented together with the group company's (OctoPlus N.V. and its subsidiaries) financial as per the tax laws of Netherlands.

**2.8: Comparative Figures :**

The company is a 100% subsidiary of OctoPlus Sciences B.V. (100% subsidiary of OctoPlus N.V.). Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Loss for the period after taxation | (3,251) |
| Balance brought forward | (124,074) |
| Balance carried forward to Balance Sheet | (127,325) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**OctoPlus N.V.**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoPlus Sciences B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 1,285 |
| Reserves and surplus | 2.2 | 120,840 |
| | | **122,125** |
| **Current liabilities** | | |
| Trade payables | 2.3 | 632 |
| Other current liabilities | 2.4 | 59,277 |
| | | **59,909** |
| | **TOTAL** | **182,034** |
| **ASSETS** | | |
| **Non current assets** | | |
| Fixed assets | | |
| Intangible assets | 2.5 | 80,223 |
| Non current investments | 2.6 | - |
| | | **80,223** |
| **Current assets** | | |
| Cash and bank balances | 2.7 | 143 |
| Short term loans and advances | 2.8 | 2,912 |
| Other current assets | 2.9 | 98,756 |
| | | **101,811** |
| | **TOTAL** | **182,034** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| Interest income | | 356 |
| **Total revenue** | | **356** |
| **Expenses** | | |
| Depreciation and amortization expense | 2.5 | 2,841 |
| Legal and professional charges | | 766 |
| **Total expenses** | | **3,607** |
| **Profit / (Loss) before tax** | | **(3,251)** |
| Tax expense | 2.12 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit / (Loss) for the period** | | **(3,251)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Intangible assets and amortization**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management's estimates of the useful lives for various categories of intangible assets are as follows:

| | Years |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 3 |

**e) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**f) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**g) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**h) Investments**

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

**Note 2 : Notes to financial statements**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 90,000 shares of Euro 1 each | 6,426 |
| **Issued** | |
| 18,000 shares of Euro 1 each | 1,285 |
| **Subscribed and paid-up** | |
| 18,000 shares of Euro 1 each | 1,285 |
| | **1,285** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 18,000 | 1,285 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 18,000 | 1,285 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| OctoPlus N.V. | 18,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | 14 |
| | 14 |
| ***Securities premium reserve*** | |
| Balance as at 15 February 2013 | 340,526 |
| Additions / (deductions) during the period | - |
| | 340,526 |
| ***General Reserve*** | |
| Balance as at 15 February 2013 | (92,375) |
| Additions / (deductions) during the period | - |
| | (92,375) |
| ***Deficit*** | |
| Balance as at 15 February 2013 | (124,074) |
| Add: Current period loss | (3,251) |
| Balance carried forward | (127,325) |
| | **120,840** |
| **2.3 : Trade Payables** | |
| Payable to others | 632 |
| | **632** |
| **2.4 : Other current liabilities** | |
| Other current liabilities | 326 |
| Due to holding company and other group companies | 58,951 |
| | **59,277** |

## Note 2 : Notes to financial statements (Continued)

### 2.5 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | | Amortisation | | | | | Net Block |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Acqui-sition | Addition | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 |
| Intangibles | - | 83,546 | - | - | (789) | 82,757 | - | 2,841 | - | (307) | 2,534 | 80,223 |
| **TOTAL** | **-** | **83,546** | **-** | **-** | **(789)** | **82,757** | **-** | **2,841** | **-** | **(307)** | **2,534** | **80,223** |

**Note 2 : Notes to Financial Statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.6 : Non current investments** | |
| Investments in Subsidiaries | 1,285 |
| Less: Provision for decline, other than temporary, in the value of long term investments | (1,285) |
| | **-** |
| **2.7 : Cash and bank balances** | |
| Cash on hand | - |
| Bank balances | |
| In current accounts | 143 |
| | **143** |
| **2.8 : Short term loans and advances (Unsecured)** | |
| ***Considered good*** | |
| Prepaid expenses | 2,912 |
| | **2,912** |
| **2.9 : Other current assets** | |
| ***Considered good*** | |
| Other receivables from holding company and other group companies | 98,756 |
| | **98,756** |

## Note 2 : Notes to Financial Statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.10: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013.

**2.11: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due from related parties (included in Other current assets) | |
| | OctoShare B.V. | 6,576 |
| | OctoPlus N.V. | 77,230 |
| | OctoPlus Technologies B.V. | 14,950 |
| ii. | Due to related parties (included in Other current liabilities) | |
| | OctoPlus Development B.V. | 53,142 |
| | OctoPlus PolyActive Sciences B.V. | 1,112 |
| | Chienna B.V. | 4,697 |

**2.12:** Tax expense for the company is computed and presented together with the parent company's (OctoPlus N.V.) financial as per the tax laws of Netherlands.

**2.13: Comparative Figures :**

The company is a 100% subsidiary of OctoPlus N.V.

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Loss for the period after taxation | (36,158) |
| Balance brought forward | (1,846,537) |
| Balance carried forward to Balance Sheet | (1,882,695) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**OctoPlus N.V.**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoPlus Technologies B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 1,428 |
| Reserves and surplus | 2.2 | (2,618,178) |
| | | **(2,616,750)** |
| **Current liabilities** | | |
| Short term borrowings | 2.3 | 12,919 |
| Trade payables | 2.4 | 10,351 |
| Other current liabilities | 2.5 | 2,635,703 |
| | | **2,658,973** |
| | **TOTAL** | **42,223** |
| **ASSETS** | | |
| **Current assets** | | |
| Trade receivables | 2.6 | 303 |
| Short term loans and advances | 2.7 | 41,920 |
| | | **42,223** |
| | **TOTAL** | **42,223** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**OctoPlus N.V.**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| Service income | | 810 |
| Other income | | 459 |
| **Total revenue** | | **1,269** |
| **Expenses** | | |
| Employee benefits expense | 2.8 | 15,615 |
| Finance costs | 2.9 | 21,398 |
| Other expenses | 2.10 | 414 |
| **Total expenses** | | **37,427** |
| **Profit / (Loss) before tax** | | **(36,158)** |
| Tax expense | 2.13 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit / (Loss) for the period** | | **(36,158)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**e) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**f) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**Note 2 : Notes to financial statements**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 2,000,000 shares of Euro 0.01 each | 1,428 |
| **Issued** | |
| 2,000,000 shares of Euro 0.01 each | 1,428 |
| **Subscribed and paid-up** | |
| 2,000,000 shares of Euro 0.01 each | 1,428 |
| | **1,428** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 2,000,000 | 1,428 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 2,000,000 | 1,428 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 0.01 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| OctoPlus N.V. | 2,000,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | 498 |
| | 498 |
| ***General Reserve*** | |
| Balance as at15 February 2013 | (735,981) |
| Additions / (deductions) during the period | - |
| | (735,981) |
| ***Deficit*** | |
| Balance as at15 February 2013 | (1,846,537) |
| Add: Current period loss | (36,158) |
| Balance carried forward | (1,882,695) |
| | **(2,618,178)** |
| **2.3 : Short term borrowings** | |
| ***Secured*** | |
| Bank overdraft | 12,919 |
| | **12,919** |
| **2.4 : Trade Payables** | |
| Payable to others | 10,351 |
| | **10,351** |
| **2.5 : Other current liabilities** | |
| Due to holding company and other group companies | 2,602,201 |
| Accrued expenses | 8,253 |
| Due to statutory authorities | 2,062 |
| Other current liabilities | 23,187 |
| | **2,635,703** |
| **2.6 : Trade Receivables** | |
| **(Unsecured)** | |
| Debts outstanding for a period exceeding six months | - |
| Other debts | |
| Considered good | 303 |
| | 303 |
| *Less*: Provision for doubtful debts | - |
| | **303** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.7 : Short term loans and advances (Unsecured)** | |
| ***Considered good*** | |
| Staff loans and advances | 10 |
| Prepaid expenses | 921 |
| Short term advances to holding company and other group companies | 40,989 |
| | **41,920** |

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.8 : Employee benefits expense** | |
| Salaries, wages and bonus | 13,041 |
| Contribution to provident and other funds | 2,398 |
| Staff welfare expenses | 176 |
| | **15,615** |
| **2.9 : Finance costs** | |
| Interest Expenses | 21,398 |
| | **21,398** |
| **2.10 : Other expense** | |
| Legal and professional | 217 |
| Travelling and conveyance | 193 |
| Bank charges | 1 |
| Miscellaneous | 3 |
| | **414** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### 2.11: Commitments and contingent liabilities

There were no commitments or contingent liabilities as at 31 March 2013.

### 2.12 : Related Party Disclosures:

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due from related parties (included in short term loans and advances) | |
| | OctoPlus Development B.V. | 40,989 |
| ii. | Due to related parties (included in Other current liabilities) | |
| | OctoPlus N.V. | 1,317,221 |
| | OctoPlus Sciences B.V. | 14,951 |
| | Chienna B.V. | 191,477 |
| | OctoShare B.V. | 1,078,552 |

**2.13:** Tax expense for the company is computed and presented together with the parent company's (OctoPlus N.V.) financial as per the tax laws of Netherlands.

### 2.14: Comparative Figures :

The company is a 100% subsidiary of OctoPlus N.V.

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the period 15 February 2013 to 31 March 2013.

Reddy Netherlands B.V. (RNBV) acquired the controlling stake of 93.1% on 15 February 2013 in the Company. As on 31 March 2013, RNBV has a total share holding of 98.91% in the Company.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period 15 February 2013 to 31 March 2013:

(₹ in Thousands)

| **Particulars** | **15 February 2013-31 March 2013** |
|---|---|
| Loss for the period after taxation | (23,477) |
| Balance brought forward | 289,408 |
| Balance carried forward to Balance Sheet | 265,931 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of 31 March 2013 and of loss of the Company for the period 15 February 2013 to 31 March 2013;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared these accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 10 May 2013

**OctoPlus N.V.**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OctoShare B.V.** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the period 15 February 2013 to 31 March 2013, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 15 February 2013 to 31 March 2013; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Shareholders' funds** | | |
| Share capital | 2.1 | 2,472 |
| Reserves and surplus | 2.2 | 1,159,038 |
| | | **1,161,510** |
| **Current liabilities** | | |
| Short term borrowings | 2.3 | 21,836 |
| Trade payables | 2.4 | 19,579 |
| Other current liabilities | 2.5 | 333,102 |
| Short term provisions | 2.6 | 249 |
| | | **374,766** |
| | **TOTAL** | **1,536,276** |
| **ASSETS** | | |
| **Non current assets** | | |
| Fixed assets | | |
| Tangible assets | 2.7 | 478 |
| Long term loans and advances | 2.8 | 31 |
| | | **509** |
| **Current assets** | | |
| Cash and bank balances | 2.9 | 27 |
| Short term loans and advances | 2.10 | 7,007 |
| Other current assets | 2.11 | 1,528,733 |
| | | **1,535,767** |
| | **TOTAL** | **1,536,276** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 15 February 2013 - 31 March 2013 |
|---|---|---|
| **Income** | | |
| Other income | 2.12 | 10,615 |
| **Total revenue** | | **10,615** |
| **Expenses** | | |
| Employee benefits expense | 2.13 | 25,154 |
| Depreciation and amortization expense | 2.7 | 106 |
| Other expenses | 2.14 | 8,832 |
| **Total expenses** | | **34,092** |
| **Profit / (Loss) before tax** | | **(23,477)** |
| Tax expense | 2.17 | |
| Current tax | | - |
| Deferred tax | | - |
| **Profit / (Loss) for the period** | | **(23,477)** |
| **Significant accounting policies** | 1 | |
| **Notes to financial statements** | 2 | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |

**f) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**h) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### i) Provisions and contingent liabilities

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.1 : Share capital** | |
| **Authorised** | |
| 147,800 shares of Euro 46 each | 485,415 |
| **Issued** | |
| 753 shares of Euro 46 each | 2,472 |
| **Subscribed and paid-up** | |
| 753 shares of Euro 46 each | 2,472 |
| | **2,472** |

(a) **Reconciliation of the equity shares outstanding is set out below:**

| Particulars | No of equity shares | Amount |
|---|---|---|
| Number of shares outstanding as at 15 February 2013 | 753 | 2,472 |
| Add : Shares issued during the period | - | - |
| Number of shares outstanding as at 31 March 2013 | 753 | 2,472 |

(b) **Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 46 per share. Each holder of equity shares is entitled to one vote per share.

(c) **Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | |
|---|---|---|
| | No of equity shares held | % of equity shares held |
| OctoPlus N.V. | 753 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.2 : Reserves and surplus** | |
| ***Foreign currency translation reserve*** | |
| Balance as at 15 February 2013 | - |
| Additions / (deductions) during the period | (66) |
| | (66) |
| ***General Reserve*** | |
| Balance as at 15 February 2013 | 893,173 |
| Additions / (deductions) during the period | - |
| | 893,173 |
| ***Surplus*** | |
| Balance as at 15 February 2013 | 289,408 |
| Add: Current period loss | (23,477) |
| Balance carried forward | 265,931 |
| | **1,159,038** |
| **2.3 : Short term borrowings** | |
| ***Secured*** | |
| Bank overdraft | 21,836 |
| | **21,836** |
| **2.4 : Trade Payables** | |
| Payables to others | 19,579 |
| | **19,579** |
| **2.5 : Other current liabilities** | |
| Accrued expenses | 14,487 |
| Due to statutory authorities | 2,787 |
| Due to holding company and other group companies | 293,381 |
| Other current liabilities | 22,447 |
| | **333,102** |
| **2.6 : Short term provisions** | |
| Provision for employee benefits | 249 |
| | **249** |

## Note 2 : Notes to financial statements (Continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | | Amortisation | | | | | Net Block |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Acqui-sition | Addition | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 |
| Office equipment | - | 585 | - | - | (1) | 584 | - | 106 | - | - | 106 | 478 - |
| **TOTAL** | **-** | **585** | **-** | **-** | **(1)** | **584** | **-** | **106** | **-** | **-** | **106** | **478 -** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 |
|---|---|
| **2.8 : Long term loans and advances (Unsecured)** | |
| ***Considered good*** | |
| Security Deposits | 31 |
| | **31** |
| **2.9 : Cash and bank balances** | |
| Cash on hand | 27 |
| | **27** |
| **2.10 : Short term loans and advances (Unsecured)** | |
| ***Considered good*** | |
| Staff loans and advances | 7 |
| Prepaid expenses | 5,749 |
| Other advances | 1,251 |
| | **7,007** |
| **2.11 : Other current assets** | |
| ***Considered good*** | |
| Other receivables from holding company and other group companies | 1,528,733 |
| | **1,528,733** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the period 15 February 2013 - 31 March 2013 |
|---|---|
| **2.12 : Other income** | |
| Interest income | 10,615 |
| | **10,615** |
| **2.13 : Employee benefits expense** | |
| Salaries, wages and bonus | 19,887 |
| Contribution to provident and other funds | 3,367 |
| Staff welfare expenses | 1,900 |
| | **25,154** |
| **2.14 : Other expense** | |
| Legal and professional | 1,542 |
| Carriage outward | 2 |
| Rates and taxes | 410 |
| Other selling expenses | 363 |
| Maintenance costs | 1,568 |
| Power and fuel | 2,629 |
| Travelling and conveyance | 689 |
| Communication | 523 |
| Rent | 110 |
| Foreign exchange loss, net | 10 |
| Printing and stationery | 158 |
| Bank charges | 4 |
| Miscellaneous | 824 |
| | **8,832** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.15: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013.

**2.16 : Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 |
|---|---|---|
| i. | Due from related parties (included in Other current assets) | |
| | OctoPlus Development B.V. | 450,181 |
| | OctoPlus Technologies B.V. | 1,078,552 |
| ii. | Due to related parties (included in Other current liabilities) | |
| | OctoPlus N.V. | 140,009 |
| | OctoPlus Sciences B.V. | 6,576 |
| | Chienna B.V. | 146,796 |

**2.17:** Tax expense for the company is computed and presented together with the parent company's (OctoPlus N.V.) financial as per the tax laws of Netherlands.

**2.18: Comparative Figures :**

The company is a 100% subsidiary of OctoPlus N.V.

Dr. Reddy's Laboratories Limited had acquired OctoPlus N.V. through its wholly owned step down subsidiary Reddy Netherlands B.V. on 15 February 2013, accordingly comparative figures are not presented.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**OctoPlus N.V.**
Director

## DIRECTORS' REPORT

Dear Members,

Your Directors present this report of the Company for the period from 1 April 2012 to 16 July 2012. The Company was sold on 16 July 2012.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period from 1 April 2012 to 16 July 2012 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 01 April 2012 - 16 July 2012 | 01 April 2011 - 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (3,456) | (23,966) |
| Balance brought forward | (1,053) | 22,913 |
| Deficiency transferred to Share Capital | 4,509 | - |
| Balance carried forward to Balance Sheet | - | (1,053) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the period ended 16 July 2012 and of loss of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 16 July 2012

**Satish Reddy**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OOO Alfa,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 16 July 2012, and the Statement of Profit and Loss for the period 1 April 2012 to 16 July 2012, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 16 July 2012; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period 1 April 2012 to 16 July 2012; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 16 July 2012

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 16 July 2012 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | - | 4,509 |
| Reserves and surplus | 2.2 | - | (1,053) |
| | | **-** | **3,456** |
| **Current liabilities** | | | |
| Other current liabilities | 2.3 | - | 29 |
| | | **-** | **29** |
| | **TOTAL** | **-** | **3,485** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 2.4 | - | 3,178 |
| Short term loans and advances | 2.5 | - | 307 |
| | | **-** | **3,485** |
| | **TOTAL** | **-** | **3,485** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

Place : Hyderabad
Date : 16 July 2012

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 01 April 2012-16 July 2012 | For the period 01 April 2011-31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 9 | - |
| **Revenue from operations** | | **9** | **-** |
| Other income | 2.6 | - | 3,297 |
| **Total revenue** | | **9** | **3,297** |
| **Expenses** | | | |
| Employee benefits expense | 2.7 | 41 | 179 |
| Depreciation and amortization expense | | 1 | 2 |
| Other expenses | 2.8 | 3,423 | 27,082 |
| **Total expenses** | | **3,465** | **27,263** |
| **Profit / (Loss) before tax** | | **(3,456)** | **(23,966)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the period** | | **(3,456)** | **(23,966)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

Place : Hyderabad
Date : 16 July 2012

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

During the current year the Board of directors of the Company resolved to dispose the entity and consequently, on 16 July 2012 the outstanding equity shares in the Company were sold to a third party.

**b) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

## Note 2 : Notes to Financial Statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 16 July 2012 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Nil (previous year 500,000) shares of RUB 1 each | - | 4,509 |
| **Issued** | | |
| Nil (previous year 500,000) shares of RUB 1 each | - | 4,509 |
| **Subscribed and paid-up** | | |
| 500,000 (previous year 500,000) shares of RUB 1 each | 4,509 | 4,509 |
| Less : Balance in surplus account transferred to Share capital on sale of entity | (4,509) | - |
| Nil (previous year 500,000) shares of RUB 1 each | **-** | **4,509** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 16 July 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 500,000 | 4,509 | 500,000 | 4,509 |
| Less: On sale of the entity | (500,000) | (4,509) | - | - |
| Number of shares outstanding at the end of the year | - | - | 500,000 | 4,509 |

**(b) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 16 July 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | - | - | 500,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 16 July 2012 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (1,053) | 22,913 |
| Add: Current period loss | (3,456) | (23,966) |
| Add: Transferred to Share capital on sale of entity | 4,509 | - |
| Balance carried forward | **-** | **(1,053)** |
| **2.3 : Other current liabilities** | | |
| Other current liabilities | - | 29 |
| | **-** | **29** |
| **2.4 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | - | 3,178 |
| | **-** | **3,178** |
| **2.5 : Short term loans and advances** | | |
| **Unsecured** | | |
| ***Considered good*** | | |
| Advance tax, net of provision for income taxes | - | 160 |
| Balances with statutory agencies | - | 58 |
| Prepaid expenses | - | 89 |
| | **-** | **307** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year period 01 April 2012- 16 July 2012 | For the period 01 April 2011- 31 March 2012 |
|---|---|---|
| **2.6 : Other income** | | |
| Interest income | - | 825 |
| Foreign exchange gain, net | - | 2,472 |
| | **-** | **3,297** |
| **2.7 : Employee benefits expense** | | |
| Salaries, wages and bonus | 41 | 179 |
| | **41** | **179** |
| **2.8 : Other expense** | | |
| Legal and professional | 325 | 9 |
| Rates and taxes | 425 | 4,113 |
| Communication | - | 17 |
| Foreign exchange loss, net | 43 | - |
| Bank charges | 31 | 193 |
| Auditors' remuneration | | |
| Audit fees | - | 12 |
| Miscellaneous | 2,599 | 22,738 |
| | **3,423** | **27,082** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.9: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.10:** All of the equity shares in the company were sold on 16 July 2012.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 16 July 2012

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (185) | (574) |
| Balance brought forward | 243 | 817 |
| Balance carried forward to Balance Sheet | 58 | 243 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OOO Dr. Reddy's Laboratories Limited,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 718 | 718 |
| Reserves and surplus | 2.2 | 58 | 243 |
| | | **776** | **961** |
| **Current liabilities** | | | |
| Trade payables | 2.3 | 89,476 | 64,076 |
| Other current liabilities | 2.4 | 13,324 | 8,291 |
| Short term provisions | 2.5 | 1,050 | 227 |
| | | **103,850** | **72,594** |
| | **TOTAL** | **104,626** | **73,554** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.6 | 326 | 305 |
| Deferred tax assets, net | 2.21 | 3,606 | 1,969 |
| Long term loans and advances | 2.7 | 674 | 612 |
| | | **4,606** | **2,886** |
| **Current assets** | | | |
| Inventories | 2.8 | 23,111 | 15,044 |
| Trade receivables | 2.9 | 63,509 | 51,321 |
| Cash and bank balances | 2.10 | 3,710 | 2,497 |
| Short term loans and advances | 2.11 | 2,189 | 1,044 |
| Other current assets | 2.12 | 7,501 | 763 |
| | | **100,020** | **70,669** |
| | **TOTAL** | **104,626** | **73,554** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 139,692 | 110,561 |
| Other operating revenues | | 6,961 | 8,804 |
| **Revenue from operations** | | **146,653** | **119,365** |
| Other income | 2.13 | 361 | 36 |
| **Total revenue** | | **147,014** | **119,401** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 138,700 | 109,129 |
| Changes in inventories of finished goods, work-in-progress and Stock-in-trade | 2.14 | (8,066) | (3,426) |
| Employee benefits expense | 2.15 | 3,394 | 2,473 |
| Finance costs | 2.16 | 26 | 9 |
| Depreciation and amortization expense | 2.6 | 166 | 167 |
| Other expenses | 2.17 | 12,434 | 11,153 |
| **Total expenses** | | **146,654** | **119,505** |
| **Profit / (loss) before tax** | | **360** | **(104)** |
| Tax expense | | | |
| Current tax | | 2,182 | 580 |
| Deferred tax | | (1,638) | (111) |
| **Profit / (loss) for the year** | | **(185)** | **(574)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**e) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000 are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |
| Vehicles | 3 to 5 |

**f) Retirement benefits**

Contributions payable to employee pension and social security schemes which are defined contribution schemes are charged to the statement of profit and loss.

**g) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

**h) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**i) Revenue Recognition**

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**j) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 46,294,632 (previous year 46,294,632) Equity shares of RUB 1 each | 718 | 718 |
| **Issued** | | |
| 46,294,632 (previous year 46,294,632) Equity shares of RUB 1 each | 718 | 718 |
| **Subscribed and paid-up** | | |
| 46,294,632 (previous year 46,294,632) Equity shares of RUB 1 each | 718 | 718 |
| | **718** | **718** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 46,294,632 | 718 | 46,294,632 | 718 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 46,294,632 | 718 | 46,294,632 | 718 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of RUB 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Ltd. | 46,294,632 | 100 | 46,294,632 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Surplus*** | | |
| Balance at the beginning of the year | 243 | 817 |
| Add: Current year loss | (185) | (574) |
| | **58** | **243** |
| **2.3 : Trade Payables** | | |
| Payables to holding company and other group companies | 87,338 | 63,158 |
| Payables to others | 2,138 | 918 |
| | **89,476** | **64,076** |
| **2.4 : Other current liabilities** | | |
| Other current liabilities | 13,324 | 8,291 |
| | **13,324** | **8,291** |
| **2.5 : Short term provisions** | | |
| Provision for employee benefits | 173 | 101 |
| Income tax payable | 877 | 126 |
| | **1,050** | **227** |

## Note 2 : Notes to financial statements (Continued)

### 2.6 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the Year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Plant & Machinery | 5 | - | - | - | 5 | 4 | 1 | - | - | 5 | - | 1 |
| Furniture, Fixtures & Office Equipments | 103 | 4 | 5 | - | 102 | 25 | 39 | 4 | - | 60 | 42 | 78 |
| Vehicles | 303 | 194 | 37 | - | 460 | 117 | 123 | 26 | - | 214 | 246 | 186 |
| Computers | 261 | - | - | - | 261 | 220 | 3 | - | - | 223 | 38 | 41 |
| **Total Tangible Assets** | **672** | **198** | **42** | **-** | **828** | **367** | **166** | **30** | **-** | **502** | **326** | **305** |
| Previous year | 477 | 267 | 71 | - | 672 | 258 | 167 | 57 | - | 367 | 305 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7: Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 573 | 516 |
| Security Deposits | 101 | 96 |
| | **674** | **612** |
| **2.8 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Work-in-progress | - | 83 |
| Stock-in-trade (in respect of goods acquired for trading) | 23,109 | 14,960 |
| Packing materials | 2 | 1 |
| | **23,111** | **15,044** |
| **2.9 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered good | 3,686 | - |
| Considered doubtful | 1,748 | 1,617 |
| Other debts | | |
| Considered good | 59,823 | 51,321 |
| | 65,257 | 52,938 |
| *Less*: Provision for doubtful debts | (1,748) | (1,617) |
| | **63,509** | **51,321** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | 1 | 5 |
| Bank balances | | |
| In current accounts | 3,709 | 2,492 |
| | **3,710** | **2,497** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.11 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 363 | 170 |
| Staff loans and advances | 24 | 17 |
| Balances with Statutory Agencies | 1,689 | 777 |
| Prepaid expenses | 2 | 17 |
| Other Advances | 111 | 63 |
| | **2,189** | **1,044** |
| **2.12 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 7,501 | 763 |
| | **7,501** | **763** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | | For the year ended 31 March 2013 | | For the year ended 31 March 2012 |
|---|---|---|---|---|
| **2.13 : Other income** | | | | |
| Interest income | | 35 | | 31 |
| Profit on sale of fixed assets, net | | 10 | | 5 |
| Foreign exchange gain, net | | 316 | | - |
| | | **361** | | **36** |
| **2.14 : Changes in inventories of finished goods, work in progress and stock in trade** | | | | |
| *Net (increase) / decrease in stock* | | | | |
| *Opening* | | | | |
| Work-in-progress | 83 | | - | |
| Stock in trade | 14,960 | 15,043 | 11,616 | 11,616 |
| *Closing* | | | | |
| Work-in-progress | - | | 83 | |
| Stock in trade | 23,109 | 23,109 | 14,960 | 15,043 |
| *Net (increase)* | | **(8,066)** | | **(3,426)** |
| **2.15 : Employee benefits expense** | | | | |
| Salaries, wages and bonus | | 2,637 | | 2,002 |
| Contribution to provident and other funds | | 504 | | 366 |
| Staff welfare expenses | | 253 | | 105 |
| | | **3,394** | | **2,473** |
| **2.16 : Finance costs** | | | | |
| Interest Expenses | | 26 | | 9 |
| | | **26** | | **9** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.17 : Other expense** | | |
| Legal and professional | 71 | 102 |
| Carriage outward | 126 | 91 |
| Rates and taxes | 5 | - |
| Other selling expenses | 1,807 | 650 |
| Travelling and conveyance | 353 | 200 |
| Communication | 89 | 54 |
| Rent | 871 | 666 |
| Insurance | 100 | 75 |
| Foreign exchange loss, net | - | 1,429 |
| Provision - Advances & Debtors | 118 | - |
| Bad debts | 72 | - |
| Printing and stationery | 63 | 48 |
| Bank charges | 49 | 43 |
| Auditors' remuneration | | |
| Audit fees | 66 | 50 |
| Advertisements | 8,372 | 7,495 |
| Miscellaneous | 272 | 250 |
| | **12,434** | **11,153** |

**2.18: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.19: Related party disclosures**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i) | Due to related parties (included in Trade Payables): | | |
| | Dr. Reddy's Laboratories Limited | 75,588 | 26,134 |
| | Dr. Reddy's Laboratories SA | 11,750 | 37,024 |
| ii) | Due from related parties (included in long term loans and advances and other current assets): | | |
| | OOO DRS LLC | 573 | 516 |
| | Dr. Reddy's Laboratories Limited | 6,712 | 54 |
| | Dr. Reddy's Laboratories SA | 789 | 709 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees lakhs, except share data and where otherwise stated)

### 2.20: Deferred taxation

Deferred tax liability, net included in the balance sheet comprises the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Trade receivables | 6 | 5 |
| Inventories | 200 | 111 |
| Other Current Assets | 183 | 194 |
| Current Liabilities | 3,227 | 1,666 |
| Fixed assets | (10) | (7) |
| **Deferred tax asset, net** | **3,606** | **1,969** |

### 2.21: Comparative figures

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.22:** The Company, incorporated in Russia, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (21,665) | (17,613) |
| Balance brought forward | (33,653) | (16,040) |
| Balance carried forward to Balance Sheet | (55,318) | (33,653) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Directors**

During the year under review, Mr. M. V. Ramana has resigned and Ms. Anna Kuzmina has been appointed as a Director.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Anna Kuzmina**
Director

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **OOO DRS LLC,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 29,520 | 29,520 |
| Reserves and surplus | 2.2 | 67,336 | 89,001 |
| | | **96,856** | **118,521** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 91,699 | 85,680 |
| | | **91,699** | **85,680** |
| **Current liabilities** | | | |
| Other current liabilities | 2.4 | 43,717 | 43,501 |
| | | **43,717** | **43,501** |
| | **TOTAL** | **232,272** | **247,702** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.5 | 206,990 | 222,587 |
| Capital work-in-progress | | 6,815 | 6,815 |
| | | **213,805** | **229,402** |
| **Current assets** | | | |
| Cash and bank balances | 2.6 | 429 | 575 |
| Short term loans and advances | 2.7 | 18,038 | 17,725 |
| | | **18,467** | **18,300** |
| | **TOTAL** | **232,272** | **247,702** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Anna Kuzmina**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| **Total revenue** | | - | - |
| **Expenses** | | | |
| Finance costs | 2.8 | 3,481 | 3,083 |
| Depreciation and amortization expense | 2.5 | 1,173 | 388 |
| Other expenses | 2.9 | 17,011 | 14,142 |
| **Total expenses** | | **21,665** | **17,613** |
| **Profit / (Loss) before tax** | | **(21,665)** | **(17,613)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(21,665)** | **(17,613)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Anna Kuzmina**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3c) of the Companies Act, 1956, other pronouncements of the Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**e) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| RUB 18,420,000 (previous year 18,420,000)* | 29,520 | 29,520 |
| **Issued** | | |
| RUB 18,420,000 (previous year 18,420,000)* | 29,520 | 29,520 |
| **Subscribed and paid-up** | | |
| RUB 18,420,000 (previous year 18,420,000)* | 29,520 | 29,520 |
| | **29,520** | **29,520** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 122 | 122 |
| Additions / (deductions) during the year | - | - |
| | 122 | 122 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 122,532 | 122,532 |
| Additions / (deductions) during the year | - | - |
| | 122,532 | 122,532 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (33,653) | (16,040) |
| Add: Current year loss | (21,665) | (17,613) |
| Balance carried forward | (55,318) | (33,653) |
| | **67,336** | **89,001** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 91,699 | 85,680 |
| | **91,699** | **85,680** |
| **2.4 : Other current liabilities** | | |
| Other current liabilities | 43,717 | 43,501 |
| | **43,717** | **43,501** |

**Note 2 : Notes to financial statements (Continued)**

**2.5 : Fixed assets**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land | 219,851 | - | 14,402 | - | 205,449 | - | - | - | - | - | 205,449 | 219,851 |
| Building | 3,847 | - | 25 | - | 3,822 | 1,111 | 1,173 | 3 | - | 2,281 | 1,541 | 2,736 |
| **Total Tangible Assets** | **223,698** | **-** | **14,427** | **-** | **209,271** | **1,111** | **1,173** | **3** | **-** | **2,281** | **206,990** | **222,587** |
| Previous year | 223,697 | 1 | - | - | 223,698 | 723 | 388 | - | - | 1,111 | 222,587 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 429 | 575 |
| | **429** | **575** |
| **2.7 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Balances with Statutory Agencies | 342 | 688 |
| Other Advances | 17,696 | 17,037 |
| | **18,038** | **17,725** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.8 : Finance costs** | | |
| Interest Expenses | 3,481 | 3,083 |
| | **3,481** | **3,083** |
| **2.9 : Other expense** | | |
| Legal and professional | 1,020 | 723 |
| Rates and taxes | 974 | 1,407 |
| Foreign exchange loss, net | 1,047 | 12,011 |
| Bank charges | 3 | 1 |
| Miscellaneous | 13,967 | - |
| | **17,011** | **14,142** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.10 : Related party Transactions:**

The company has the following related party transactions:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i) | Due to related parties (included in Long term borrowings): | | |
| | OOO Dr. Reddy's Laboratories Limited | 57,259 | 51,562 |
| | Reddy Antilles N.V. | 34,440 | 34,118 |

**2.11 : Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: ₹ Nil).

**2.12: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.13:** The Company, incorporated under the laws of Russia, is a 100% subsidiary of Eurobridge Consulting B.V.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Anna Kuzmina**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Lakhs)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (6,390) | (4,540) |
| Balance brought forward | (24,148) | (19,608) |
| Balance carried forward to Balance Sheet | (30,538) | (24,148) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

**G.V. Prasad**
Director

## AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Promius Pharma LLC,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 17,123 | 17,123 |
| Reserves and surplus | 2.2 | (30,179) | (23,390) |
| | | **(13,056)** | **(6,267)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 3 | 15 |
| Other long term liabilities | 2.4 | 1,293 | 1,475 |
| | | **1,296** | **1,490** |
| **Current liabilities** | | | |
| Short term borrowings | 2.3 | - | 12 |
| Trade payables | 2.5 | 178 | 55 |
| Other current liabilities | 2.4 | 31,250 | 24,158 |
| Short term provisions | 2.6 | 1,620 | 799 |
| | | **33,048** | **25,024** |
| | **TOTAL** | **21,288** | **20,247** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 19 | 28 |
| Intangible assets | 2.7 | 16,221 | 17,822 |
| Capital work-in-progress | | - | 83 |
| Long term loans and advances | 2.8 | 8 | - |
| | | **16,248** | **17,933** |
| **Current assets** | | | |
| Inventories | 2.9 | 575 | 493 |
| Trade receivables | 2.10 | 2,677 | 952 |
| Cash and bank balances | 2.11 | 300 | 227 |
| Short term loans and advances | 2.12 | 1,232 | 524 |
| Other current assets | 2.13 | 256 | 118 |
| | | **5,040** | **2,314** |
| | **TOTAL** | **21,288** | **20,247** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 14,682 | 10,776 |
| Other operating revenues | | 91 | 446 |
| **Total revenue** | | **14,773** | **11,222** |
| **Expenses** | | | |
| Purchase of stock-in-trade (traded goods) | | 1,459 | 2,030 |
| Changes in inventory of stock-in-trade | 2.14 | (82) | (305) |
| Conversion charges | | 68 | 3 |
| Employee benefits expense | 2.15 | 6,297 | 4,883 |
| Finance costs | 2.16 | 32 | - |
| Depreciation and amortization expense | 2.7 | 2,814 | 2,686 |
| Research and development | | 1,634 | 332 |
| Other expenses | 2.17 | 8,941 | 6,133 |
| **Total expenses** | | **21,163** | **15,763** |
| **Profit / (Loss) before tax** | | **(6,390)** | **(4,541)** |
| Tax expense | 2.19 | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(6,390)** | **(4,541)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**e) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date, not covered by forward exchange contracts, are translated at year-end rates. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets are recorded at the rates prevailing on the date of the transaction.

**f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Net realisable value (NRV) is the estimated selling price in the ordinary course of the business, less the estimated costs of completion and the estimated costs necessary to make the sale. Cost of inventories comprises all cost of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of all categories of inventory is determined using weighted average cost method.

**g) Tangible assets and depreciation**

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |
| Computer equipment | 3 |

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

### h) Intangible assets and amortisation

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

The management’s estimates of the useful lives for various categories of intangible assets are as follows:

| | **Years** |
|---|---|
| Patents, trademarks, etc. (including marketing/ distribution rights) | 8 |

### i) Provisions and contingent liabilities

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

### j) Revenue recognition

*Sale of goods*

Revenue from sale of goods is recognised when significant risks and rewards in respect of ownership of products are transferred to customers. Revenue from product sales is stated exclusive of returns, sales tax and applicable trade discounts and allowances.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

### k) Research and development

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the statement of profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- Development costs can be measured reliably;
- The product or process is technically and commercially feasible;
- Future economic benefits are probable; and
- The Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

Expenditure incurred on fixed assets used for research and development is capitalised and depreciated in accordance with the depreciation policy of the Company.

**l) Leases**

The lease arrangement is classified as either a finance lease or an operating lease, at the inception of the lease, based on the substance of the lease arrangement.

*Finance leases*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. A finance lease is recognized as an asset and a liability at the commencement of the lease, at the lower of the fair value of the asset and the present value of the minimum lease payments. Initial direct costs, if any, are also capitalized and, subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

*Operating leases*

Other leases are operating leases, and the leased assets are not recognized on the Company's balance sheet. Payments made under operating leases are recognized in the statement of profit and loss on a straight-line basis over the term of the lease.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| USD 38,760,000 (previous year 38,760,000)* | 17,123 | 17,123 |
| **Issued** | | |
| USD 38,760,000 (previous year 38,760,000)* | 17,123 | 17,123 |
| **Subscribed and paid-up** | | |
| USD 38,760,000 (previous year 38,760,000)* | 17,123 | 17,123 |
| | **17,123** | **17,123** |
| * No concept of nature and number of shares in this company | | |
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 753 | 1,060 |
| Additions / (deductions) during the year | (399) | (307) |
| | 354 | 753 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 5 | 5 |
| Additions / (deductions) during the year | - | - |
| | 5 | 5 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (24,148) | (19,608) |
| Add: Current year loss | (6,390) | (4,540) |
| Balance carried forward | (30,538) | (24,148) |
| | **(30,179)** | **(23,390)** |
| **2.3 : Borrowings** | | |
| **a) Long term borrowings** | | |
| ***Secured*** | | |
| Long term maturities of finance lease obligations | 3 | 15 |
| | **3** | **15** |
| **b) Short term borrowings** | | |
| ***Unsecured*** | | |
| Other short term loans | - | 12 |
| | **-** | **12** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Other Liabilities - Non Current | 1,293 | 1,475 |
| | **1,293** | **1,475** |
| **b) Other current liabilities** | | |
| Current maturities of finance lease obligations | 14 | - |
| Due to capital creditors | 3 | - |
| Due to holding company and other group companies | 27,065 | 22,263 |
| Accrued expenses | 2,918 | 1,256 |
| Salary and Bonus payable | 714 | 482 |
| Other current liabilities | 536 | 157 |
| | **31,250** | **24,158** |
| **2.5 : Trade Payables** | | |
| Payables to others | 178 | 55 |
| | **178** | **55** |
| **2.6 : Short term provisions** | | |
| Provision for employee benefits | 15 | 14 |
| Other provisions | | |
| Allowance for sales returns | 1,605 | 785 |
| | **1,620** | **799** |

## Note 2 : Notes to financial statements (continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation / Amortisation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Electrical/ Office equipment | 2 | 1 | - | 1 | 4 | - | - | - | - | - | 4 | 2 |
| Computers | 218 | - | - | 12 | 230 | 192 | 13 | - | 10 | 215 | 15 | 26 |
| **Total Tangible Assets (A)** | **220** | **1** | **-** | **13** | **234** | **192** | **13** | **-** | **10** | **215** | **19** | **28** |
| Intangibles | 22,734 | - | - | 1,524 | 24,258 | 4,912 | 2,801 | - | 324 | 8,037 | 16,221 | 17,822 |
| **Total Intangible Assets (B)** | **22,734** | **-** | **-** | **1,524** | **24,258** | **4,912** | **2,801** | **-** | **324** | **8,037** | **16,221** | **17,822** |
| **TOTAL (A+B)** | **22,954** | **1** | **-** | **1,537** | **24,492** | **5,104** | **2,814** | **-** | **334** | **8,252** | **16,240** | **17,850** |
| Previous year | 20,938 | 1,008 | - | 1,008 | 22,954 | 1,904 | 2,686 | - | 514 | 5,104 | 17,850 | |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security deposits | 8 | - |
| | **8** | **-** |
| **2.9 : Inventories** | | |
| **(Valued on weighted average basis)** | | |
| Stock-in-trade (in respect of goods acquired for trading) | 575 | 493 |
| | **575** | **493** |
| **2.10 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 2,677 | 952 |
| *Less :* Provision for doubtful debts | - | - |
| | **2,677** | **952** |
| **2.11 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 300 | 227 |
| | **300** | **227** |
| **2.12 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 269 | 248 |
| Advance tax, net of provision for income taxes | 7 | 6 |
| Prepaid expenses | 93 | 98 |
| Other Advances | 863 | 172 |
| | **1,232** | **524** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.13 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 256 | 118 |
| | **256** | **118** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.14 : Changes in inventory of stock-in-trade** | | |
| *Opening* | | |
| Stock-in-trade | 493 | 188 |
| *Closing* | | |
| Stock-in-trade | 575 | 493 |
| | **(82)** | **(305)** |
| **2.15 : Employee benefits expense** | | |
| Salaries, wages and bonus | 5,373 | 4,202 |
| Contribution to provident and other funds | 415 | 372 |
| Staff welfare expenses | 509 | 309 |
| | **6,297** | **4,883** |
| **2.16 : Finance costs** | | |
| Interest Expenses | 32 | - |
| | **32** | **-** |
| **2.17 : Other expense** | | |
| Legal and professional | 305 | 722 |
| Carriage outward | 58 | 17 |
| Rates and taxes | 124 | 49 |
| Other selling expenses | 5,441 | 3,287 |
| Travelling and conveyance | 376 | 276 |
| Communication | 19 | 74 |
| Rent | 237 | 282 |
| Insurance | 44 | 45 |
| Provision - Advances & Debtors | - | 80 |
| Donations | 5 | 5 |
| Printing and stationery | 25 | 19 |
| Advertisements | 324 | 41 |
| Miscellaneous | 1,983 | 1,235 |
| | **8,941** | **6,133** |

**Note 2 : Notes to financial statements (continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

**2.18: Related Party Transactions:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in other current assets): | | |
| | Dr. Reddy's Laboratories Limited | 256 | 118 |
| ii. | Due to related parties (included in Other current liabilities): | | |
| | Dr. Reddy's Laboratories Inc. | 27,065 | 22,251 |
| | Dr. Reddy's Laboratories SA | - | 12 |

**2.19:** The tax expense for the Company is computed and presented together with the parent Company's (Dr. Reddy's Laboratories Inc.) financial as per the tax laws of United States.

**2.20: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as at 31 March 2013 (previous year Nil).

**2.21: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.22:** The Company incorporated in the United States of America, is a 100% subsidiary of Dr. Reddy's Laboratories Inc.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

# DIRECTORS’ REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (60,914) | (30,465) |
| Balance brought forward | 143,907 | 174,372 |
| Balance carried forward to Balance Sheet | 82,993 | 143,907 |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Satish Reddy**
Director

## AUDITORS' REPORT

To
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Antilles N.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 52,279 | 17,969 |
| Reserves and surplus | 2.2 | 82,993 | 170,612 |
| | | **135,272** | **188,581** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 281,900 | 264,121 |
| | | **281,900** | **264,121** |
| **Current liablities** | | | |
| Oher current liabilities | 2.4 | 17,533 | 16,425 |
| Short term provisions | 2.5 | 27 | 26 |
| | | **17,560** | **16,451** |
| | **TOTAL** | **434,732** | **469,153** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Non current investments | 2.6 | 364,394 | 371,024 |
| Long term loans and advances | 2.7 | 65,498 | 58,302 |
| | | **429,892** | **429,326** |
| **Current assets** | | | |
| Cash and bank balances | 2.8 | 2,272 | 79 |
| Short term loans and advances | 2.9 | 2,568 | 39,748 |
| | | **4,840** | **39,827** |
| | **TOTAL** | **434,732** | **469,153** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| **Total revenue** | | **-** | **-** |
| **Expenses** | | | |
| Other expenses | 2.10 | 60,914 | 30,465 |
| **Total expenses** | | **60,914** | **30,465** |
| **Profit / (Loss) before tax** | | **(60,914)** | **(30,465)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(60,914)** | **(30,465)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

### d) Foreign currency transactions, balances and translation of financial statements

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

### e) Investments

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non current investments.

Non current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

### f) Provisions and contingent liabilities

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to Financial Statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 1,131,646 (previous year : 1,000,000) shares of USD 1 each | 52,279 | 35,938 |
| **Issued** | | |
| 1,131,646(previous year : 500,000) shares of USD 1 each | 52,279 | 17,969 |
| **Subscribed and paid-up** | | |
| 1,131,646 (previous year : 500,000) shares of USD 1 each | 52,279 | 17,969 |
| | **52,279** | **17,969** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 500,000 | 17,969 | 500,000 | 17,969 |
| Add: Share issued during the year | 631,646 | 34,310 | - | - |
| Number of shares outstanding at the end of the year | 1,131,646 | 52,279 | 500,000 | 17,969 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of USD 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | 1,131,646 | 100 | 500,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 26,705 | - |
| Additions / (deductions) during the year | (26,705) | 26,705 |
| | - | 26,705 |
| ***Surplus*** | | |
| Balance at the beginning of the year | 143,907 | 174,372 |
| Add: Current year loss | (60,914) | (30,465) |
| Balance carried forward | 82,993 | 143,907 |
| | **82,993** | **170,612** |
| **2.3 : Long term borrowings** | | |
| **Unsecured** | | |
| Borrowings from holding company and other group companies | 281,900 | 264,121 |
| | **281,900** | **264,121** |
| **2.4 : Other current liabilities** | | |
| Due to holding company and other group companies | 16,275 | 15,828 |
| Other current liabilities | 1,258 | 597 |
| | **17,533** | **16,425** |
| **2.5 : Short term provisions** | | |
| Income tax payable | 27 | 26 |
| | **27** | **26** |
| **2.6 : Non current investment** | | |
| Investment in subsidiaries | 364,394 | 371,024 |
| *Less:* Provision for decline, other than temporary, in the value of non current investments | - | - |
| | **364,394** | **371,024** |
| **2.7 : Long term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 65,498 | 58,302 |
| | **65,498** | **58,302** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2012 | As at 31 March 2011 |
|---|---|---|
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 2,272 | 79 |
| | **2,272** | **79** |
| **2.9 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 822 | 771 |
| Prepaid expenses | 60 | 61 |
| Other Advances | 1,686 | 38,916 |
| | **2,568** | **39,748** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other expense** | | |
| Legal and professional | 1,171 | 905 |
| Non Executive Directors' remuneration | 65 | 30 |
| Foreign exchange loss, net | 13,729 | 29,360 |
| Miscellaneous | 45,949 | 170 |
| | **60,914** | **30,465** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### 2.11: Commitments and contingent liabilities

There were no commitments or contingent liabilities as at 31 March 2013 (previous year Nil).

### 2.12: Related Party Disclosures :

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties (included in long term loans and advances) | | |
| | Reddy Netherlands B.V | 28,989 | 24,184 |
| | OOO DRS LLC | 34,440 | 34,118 |
| | Eurobridge Consulting B.V. | 2,069 | - |
| ii. | Due to related parties (included in borrowings and other liabilities): | | |
| | Dr. Reddy's Laboratories Ltd. | 298,175 | 279,949 |

### 2.13: Comparative figures

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.14:** The Company, incorporated in Antilles (Netherlands), is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | - | (108) |
| Balance brought forward | (47,299) | (47,191) |
| Balance carried forward to Balance Sheet | (47,299) | (47,299) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

| | | |
|---|---|---|
| | **Michael Ewers** | **Abhijit Mukherjee** |
| Place : Hyderabad | Director | Director |
| Date : 10 May 2013 | | |

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy beta GmbH** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 1,350 | 1,350 |
| Reserves and surplus | 2.2 | 387 | (49) |
| | | **1,737** | **1,301** |
| **Current liabilities** | | | |
| Trade payables | 2.3 | 82 | - |
| | | **82** | - |
| | **TOTAL** | **1,819** | **1,301** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 2.4 | 1,560 | 1,219 |
| Short term loans and advances | 2.5 | 73 | 82 |
| Other current assets | 2.6 | 186 | - |
| | | **1,819** | **1,301** |
| | **TOTAL** | **1,819** | **1,301** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**

*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.7 | 2 | 10 |
| **Total revenue** | | **2** | **10** |
| **Expenses** | | | |
| Other expenses | 2.8 | 2 | 118 |
| **Total expenses** | | **2** | **118** |
| **Profit /(Loss) before tax** | | **-** | **(108)** |
| Tax expense | 2.10 | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit /(Loss) for the year** | | **-** | **(108)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached
*for* **A. Ramachandra Rao & Co.**

*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Provisions and contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Euro 25,000 (previous year 25,000)* | 1,200 | 1,350 |
| **Issued** | | |
| Euro 25,000 (previous year 25,000)* | 1,350 | 1,350 |
| **Subscribed and paid-up** | | |
| Euro 25,000 (previous year 25,000)* | 1,350 | 1,350 |
| * No concept of nature and number of shares in this company | | |
| | **1,350** | **1,350** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 47,250 | (634) |
| Additions / (deductions) during the year | 436 | 47,884 |
| | 47,686 | 47,250 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (47,299) | (47,191) |
| Add: Current year loss | - | (108) |
| Balance carried forward | (47,299) | (47,299) |
| | **387** | **(49)** |
| **2.3 : Trade Payables** | | |
| Payables to others | 82 | - |
| | **82** | **-** |
| **2.4 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,560 | 1,219 |
| | **1,560** | **1,219** |
| **2.5 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 72 | - |
| Advance tax, net of provision for income taxes | 1 | - |
| Other Advances | - | 82 |
| | **73** | **82** |
| **2.6 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 186 | - |
| | **186** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7 : Other income** | | |
| Interest income | 2 | 10 |
| | **2** | **10** |
| **2.8 : Other expense** | | |
| Legal and professional | - | 4 |
| Rates and taxes | - | 11 |
| Insurance | - | 92 |
| Bank charges | 2 | 11 |
| | **2** | **118** |

**2.9: Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil).

**2.10:** Tax expense for the Company is computed and presented together with the parent Company's (Reddy Holding GmbH) financial as per the tax laws of Germany.

**2.11: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.12:** The Company, incorporated in Germany, is a 100% subsidiary of Reddy Holding GmbH.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**

*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**Abhijit Mukherjee**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (1) | (4) |
| Balance brought forward | (2,024) | (2,020) |
| Balance carried forward to Balance Sheet | (2,025) | (2,024) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We resolved to dissolve the entity and hence the accounts of the company are not prepared on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Cheminor S.A.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. In our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 1,958 | 1,958 |
| Reserves and surplus | 2.2 | (2,025) | (2,024) |
| | | **(67)** | **(66)** |
| **Current liablities** | | | |
| Trade payables | 2.3 | 5,329 | 5,204 |
| | | **5,329** | **5,204** |
| | **TOTAL** | **5,262** | **5,138** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and bank balances | 2.4 | 30 | 29 |
| Short term loans and advances | 2.5 | 2,299 | 2,245 |
| Other current assets | 2.6 | 2,933 | 2,864 |
| | | **5,262** | **5,138** |
| | **TOTAL** | **5,262** | **5,138** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| **Total revenue** | | **-** | **-** |
| **Expenses** | | | |
| Other expenses | 2.7 | 1 | 4 |
| **Total expenses** | | **1** | **4** |
| **Profit / (Loss) before tax** | | **(1)** | **(4)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(1)** | **(4)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**a) Basis of preparation of consolidated financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

The Board of Directors of the Company resolved to dissolve the entity and hence the accounts of the company are not prepared on going concern basis.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**d) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**i) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 2,500 (previous year 2,500) shares of Euro 16 each | 1,958 | 1,958 |
| **Issued** | | |
| 2,500 (previous year 2,500) shares of Euro 16 each | 1,958 | 1,958 |
| **Subscribed and paid-up** | | |
| 2,500 (previous year 2,500) shares of Euro 16 each | 1,958 | 1,958 |
| | **1,958** | **1,958** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 2,500 | 1,958 | 2,500 | 1,958 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 2,500 | 1,958 | 2,500 | 1,958 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 16 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories Limited | 2,500 | 100 | 2,500 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Deficit*** | | |
| Balance at the beginning of the year | (2,024) | (2,020) |
| Add: Current year loss | (1) | (4) |
| Balance carried forward | **(2,025)** | **(2,024)** |
| **2.3 : Trade Payables** | | |
| Payables to others | 5,329 | 5,204 |
| | **5,329** | **5,204** |
| **2.4 : Cash and bank balances** | | |
| Cash on hand | 30 | 29 |
| | **30** | **29** |
| **2.5 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Other Advances | 2,299 | 2,245 |
| | **2,299** | **2,245** |
| **2.6 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 2,933 | 2,864 |
| | **2,933** | **2,864** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7 : Other expense** | | |
| Foreign exchange loss, net | 1 | 4 |
| | **1** | **4** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

**2.8: Commitments and contingent liabilities**

There are no commitments or contingent liabilities as at 31 March 2013 (previous year Nil).

**2.9: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.10:** The Company, incorporated in France, is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (810) | (504,119) |
| Balance brought forward | (7,390,257) | (6,886,138) |
| Balance carried forward to Balance Sheet | (7,391,067) | (7,390,257) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Michael Ewers** Director

**G V Prasad** Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Holding GmbH,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 1,350 | 1,350 |
| Reserves and surplus | 2.2 | (4,704,443) | (1,633,712) |
| | | **(4,703,093)** | **(1,632,362)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 27,712,170 | 23,471,351 |
| Other long term liabilities | 2.4 | 65 | - |
| | | **27,712,235** | **23,471,351** |
| **Current liabilities** | | | |
| Short term borrowings | 2.3 | 3,128,383 | 3,054,959 |
| Other current liabilities | 2.4 | 902,624 | 1,767,340 |
| Short term provisions | 2.5 | 110,988 | 172,510 |
| | | **4,141,995** | **4,994,809** |
| | **TOTAL** | **27,151,137** | **26,833,799** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Non current investments | 2.6 | 26,063,322 | 26,063,322 |
| Deferred tax assets, net | 2.18 | 369,886 | 412,671 |
| Long term loans and advances | 2.7 | - | 450 |
| | | **26,433,208** | **26,476,443** |
| **Current assets** | | | |
| Trade receivables | 2.8 | - | 24,610 |
| Cash and bank balances | 2.9 | 3,683 | 45,706 |
| Short term loans and advances | 2.10 | 426,739 | 150,183 |
| Other current assets | 2.11 | 287,507 | 136,857 |
| | | **717,929** | **357,356** |
| | **TOTAL** | **27,151,137** | **26,833,799** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

**Michael Ewers**
Director

**G V Prasad**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 245,407 | - |
| **Revenue from operations** | | **245,407** | **-** |
| Other income | 2.12 | 923,370 | 154,855 |
| **Total revenue** | | **1,168,777** | **154,855** |
| **Expenses** | | | |
| Conversion charges | | - | 83 |
| Employee benefits expense | 2.13 | 182,146 | 142,299 |
| Finance costs | 2.14 | 852,175 | 483,852 |
| Other expenses | 2.15 | 106,231 | 68,454 |
| **Total expenses** | | **1,140,552** | **694,688** |
| **Profit / (Loss) before tax** | | **28,225** | **(539,833)** |
| Tax expense | 2.19 | | |
| Current tax | | 29,035 | (54,787) |
| Deferred tax | | - | 19,072 |
| **Profit / (Loss) for the year** | | **(810)** | **(504,119)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**G V Prasad**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under Section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with Section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**d) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**e) Income-tax expense**

Income tax expense comprises current tax and deferred tax charge or credit, if any.

*Current tax*

The current charge for income taxes is calculated in accordance with the relevant tax regulations applicable to the Company.

*Deferred tax*

Deferred tax charge or credit reflects the tax effects of timing differences between accounting income and taxable income for the period. The deferred tax charge or credit and the corresponding deferred tax liabilities or assets are recognised using the tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realised in future; however, where there is unabsorbed depreciation or carry forward of losses, deferred tax assets are recognised only if there is a virtual certainty of realisations of such assets. Deferred tax assets are reviewed as at each balance sheet date and written-down or written-up to reflect the amount that is reasonably / virtually certain (as the case may be) to be realised.

Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to set-off assets against liabilities representing current tax, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

**f) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Euro 25,000 (previous year 25,000)* | 1,350 | 1,350 |
| **Issued** | | |
| Euro 25,000 (previous year 25,000)* | 1,350 | 1,350 |
| **Subscribed and paid-up** | | |
| Euro 25,000 (previous year 25,000)* | 1,350 | 1,350 |
| | **1,350** | **1,350** |

* No concept of nature and number of shares in this company

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (198,161) | 512,601 |
| Additions / (deductions) during the year | (3,069,921) | (710,762) |
| | (3,268,082) | (198,161) |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 5,954,706 | 5,954,706 |
| Additions / (deductions) during the year | - | - |
| | 5,954,706 | 5,954,706 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (7,390,257) | (6,886,138) |
| Add: Current year loss | (810) | (504,119) |
| Balance carried forward | (7,391,067) | (7,390,257) |
| | **(4,704,443)** | **(1,633,712)** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.3 : Borrowings** | | |
| **a) Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 27,712,170 | 23,471,351 |
| | **27,712,170** | **23,471,351** |
| **b) Short term borrowings** | | |
| ***Secured*** | | |
| Short Term Loan - Banks | 3,128,383 | 3,054,038 |
| Other short term loans | - | 921 |
| | **3,128,383** | **3,054,959** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Other Liabilities - Non Current | 65 | - |
| | **65** | **-** |
| **b) Other current liabilities** | | |
| Due to holding company and other group companies | - | 97,208 |
| Accrued expenses | 13,899 | 1,181,601 |
| Other current liabilities | 888,725 | 488,531 |
| | **902,624** | **1,767,340** |
| **2.5 : Short term provisions** | | |
| Income tax payable | 110,988 | 172,510 |
| | **110,988** | **172,510** |
| **2.6 : Non current investments** | | |
| Investments in Subsidiaries | 26,063,322 | 26,063,322 |
| *Less:* Provision for decline, other than temporary, in the value of long term investments | - | - |
| | **26,063,322** | **26,063,322** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security deposits | - | 450 |
| | **-** | **450** |
| **2.8 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Other debts | | |
| Considered good | - | 24,610 |
| | - | 24,610 |
| *Less*: Provision for doubtful debts | - | - |
| | **-** | **24,610** |
| **2.9 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 3,683 | 45,706 |
| | **3,683** | **45,706** |
| **2.10 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Advances to material suppliers | 425,697 | - |
| Staff loans and advances | 1,042 | 136 |
| Prepaid expenses | - | 150,047 |
| | **426,739** | **150,183** |
| **2.11 : Other current assets** | | |
| ***Considered good*** | | |
| Other current assets | 287,507 | 136,857 |
| | **287,507** | **136,857** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.12 : Other income** | | |
| Interest income | 20 | - |
| Profit on sale of fixed assets, net | - | 212 |
| Foreign exchange gain, net | - | 453 |
| Miscellaneous | 923,350 | 154,190 |
| | **923,370** | **154,855** |
| **2.13 : Employee benefits expense** | | |
| Salaries, wages and bonus | 158,527 | 121,087 |
| Contribution to provident and other funds | 17,814 | 15,737 |
| Staff welfare expenses | 5,805 | 5,475 |
| | **182,146** | **142,299** |
| **2.14 : Finance costs** | | |
| Interest Expenses | 852,175 | 483,852 |
| | **852,175** | **483,852** |
| **2.15 : Other expense** | | |
| Legal and professional | 18,123 | 27,471 |
| Carriage outward | - | 894 |
| Rates and taxes | 15,294 | - |
| Other selling expenses | 1,047 | - |
| Travelling and conveyance | 5,717 | 5,070 |
| Communication | 13,071 | 12,281 |
| Rent | 465 | - |
| Insurance | 3,575 | 2,290 |
| Bad debts written-off | 23,183 | - |
| Printing and stationery | 1,164 | 1,264 |
| Bank charges | 104 | 155 |
| Auditors' remuneration | | |
| Audit fees | 5,575 | 1,288 |
| Advertisements | 620 | 2,079 |
| Miscellaneous | 18,293 | 15,662 |
| | **106,231** | **68,454** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.16: Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (previous year: Nil)

**2.17: Deferred taxation**

Deferred tax asset, net included in the Balance Sheet comprises of the following:

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **Deferred tax assets / (liabilities)** | | |
| Other Current assets | 163,122 | 165,064 |
| Loss carry forward | 270,339 | 312,156 |
| Trade receivables | 47,949 | 46,827 |
| Current Liabilities | 31,766 | 30,948 |
| Inventory | (6,694) | (3,747) |
| Fixed assets | (136,596) | (138,577) |
| **Deferred tax assets, net** | **369,886** | **412,671** |

**2.18: Related party disclosures**

The Company has following amounts due from/ to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in Borrowings) | | |
| | Dr. Reddy's Laboratories SA | 1,316,198 | 961,833 |
| | Lacock Holdings Limited | 26,395,972 | 22,509,518 |

**2.19:** The total tax expense for the company is computed and presented jointly with its subsidiary companies as per the tax laws of Germany.

**2.20: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.21:** The Company, incorporated in Germany, is a 100% Subsidiary of Lacock Holdings Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Michael Ewers**
Director

**G V Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (180,162) | (3,499) |
| Balance brought forward | (28,986) | (25,487) |
| Balance carried forward to Balance Sheet | (209,148) | (28,986) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Netherlands B.V.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 6,626 | 6,626 |
| Reserves and surplus | 2.2 | 2,245,340 | (28,986) |
| | | **2,251,966** | **(22,360)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 28,990 | 24,184 |
| | | **28,990** | **24,184** |
| **Current liablities** | | | |
| Other current liabilities | 2.4 | 20,720 | - |
| | | **20,720** | **-** |
| | **TOTAL** | **2,301,676** | **1,824** |
| **ASSETS** | | | |
| **Non Current assets** | | | |
| Non current investments | 2.5 | 1,933,875 | - |
| Long term loans and advances | 2.6 | 278,395 | - |
| | | **2,212,270** | **-** |
| **Current assets** | | | |
| Trade receivables | 2.7 | 1,202 | 1,556 |
| Cash and bank balances | 2.8 | 24,433 | 268 |
| Short term loans and advances | 2.9 | 63,771 | - |
| | | **89,406** | **1,824** |
| | **TOTAL** | **2,301,676** | **1,824** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750
Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.10 | 421 | 290 |
| **Total revenue** | | **421** | **290** |
| **Expenses** | | | |
| Finance costs | 2.11 | - | 41 |
| Research and development | | 118,795 | - |
| Other expenses | 2.12 | 61,788 | 3,748 |
| **Total expenses** | | **180,583** | **3,789** |
| **Profit / (Loss) before tax** | | **(180,162)** | **(3,499)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit / (Loss) for the year** | | **(180,162)** | **(3,499)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

### b) Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

### c) Foreign currency transactions, balances and translation of financial statements

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

### d) Current and non current classification

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**e) Interest income**

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**f) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

**g) Research and development**

Expenditures on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in the statement of profit and loss when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if:

- Development costs can be measured reliably,
- The product or process is technically and commercially feasible,
- Future economic benefits are probable and ascertainable, and
- The Company intends to and has sufficient resources to complete development and has the ability to use or sell the asset.

  Expenditure incurred on fixed assets used for research and development is capitalised and depreciated in accordance with the depreciation policy of the Company.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 3,200 (previous year 3,200) shares of Euro 50 each | 6,626 | 6,626 |
| **Issued** | | |
| 3,200 (previous year 3,200) shares of Euro 50 each | 6,626 | 6,626 |
| **Subscribed and paid-up** | | |
| 3,200 (previous year 3,200) shares of Euro 50 each | 6,626 | 6,626 |
| | **6,626** | **6,626** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 3,200 | 6,626 | 704 | 1,820 |
| Add: Share issued during the year | - | - | 2,496 | 4,806 |
| Number of shares outstanding at the end of the year | 3,200 | 6,626 | 3,200 | 6,626 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 50 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories SA | 3,200 | 100 | - | - |
| Reddy Antilles N.V. | - | - | 3,200 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | - | - |
| Additions / (deductions) during the year | 2,454,488 | - |
| | 2,454,488 | - |
| ***Deficit*** | | |
| Balance at the beginning of the year | (28,986) | (25,487) |
| Add: Current year loss | (180,162) | (3,499) |
| Balance carried forward | (209,148) | (28,986) |
| | **2,245,340** | **(28,986)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 28,990 | 24,184 |
| | **28,990** | **24,184** |
| **2.4 : Other current liabilities** | | |
| Accrued expenses | 16,910 | - |
| Other current liabilities | 3,810 | - |
| | **20,720** | **-** |
| **2.5 : Non current investments** | | |
| Investments in Subsidiaries | 1,933,875 | - |
| *Less:* Provision for decline and other than temporary, in the value of long term investments | - | - |
| | **1,933,875** | **-** |
| **2.6 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 278,395 | - |
| | **278,395** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.7 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | - | - |
| Other debts | | |
| Considered good | 1,202 | 1,556 |
| | 1,202 | 1,556 |
| *Less*: Provision for doubtful debts | - | - |
| | **1,202** | **1,556** |
| **2.8 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 24,433 | 268 |
| | **24,433** | **268** |
| **2.9 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Trade advance to holding company and other group companies | 32,075 | - |
| Balance with statutory agencies | 24,639 | - |
| Other advances | 7,057 | - |
| | **63,771** | **-** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.10 : Other income** | | |
| Interest income | 421 | - |
| Foreign exchange gain, net | - | 290 |
| | **421** | **290** |
| **2.11 : Finance costs** | | |
| Interest Expenses | - | 41 |
| | **-** | **41** |
| **2.12 : Other expense** | | |
| Legal and professional | 15,981 | - |
| Foreign exchange loss, net | 38,147 | - |
| Bank charges | 40 | 51 |
| Miscellaneous | 7,620 | 3,697 |
| | **61,788** | **3,748** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.13: Commitments and contingent liabilities**

There are no commitments and contingent liabilities as on 31 March 2013 (previous year Nil).

**2.14: Related party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2013 |
|---|---|---|---|
| i. | Due to related parties (included in long term borrowings) Reddy Antilles N.V | 28,990 | 24,184 |
| ii. | Due from related parties (included in loans and advances) Octoplus N.V. | 310,470 | - |

**2.15:** On 15 February 2013, the Company invested an amount of ₹ 1,771,763 to acquire 93.1% of the outstanding equity shares of OctoPlus N.V.

**2.16: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.17:** The Company, incorporated in the Netherlands, is a 100% Subsidiary of Dr. Reddy's Laboratories SA.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **31 March 2013** | **31 March 2012** |
|---|---|---|
| Profit for the period after taxation | 9,097 | 74,424 |
| Balance brought forward | (554,794) | (629,219) |
| Balance carried forward to Balance Sheet | (545,697) | (554,794) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of profit of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Sameer Natu**
Director

**M. V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Pharma Iberia SA,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the profit for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 321,090 | 321,090 |
| Reserves and surplus | 2.2 | (544,401) | (546,310) |
| | | **(223,311)** | **(225,220)** |
| **Share application money pending allotment** | | **244,928** | **-** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 41 | 373,311 |
| Other long term liabilities | 2.4 | 1,853 | 3,167 |
| | | **1,894** | **376,478** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 3,518 | 20,920 |
| Other current liabilities | 2.4 | 8,434 | 17,020 |
| | | **11,952** | **37,940** |
| | **TOTAL** | **35,463** | **189,198** |
| **ASSETS** | | | |
| **Current assets** | | | |
| Trade receivables | 2.6 | - | 71,127 |
| Cash and bank balances | 2.7 | 30,982 | 114,187 |
| Short term loans and advances | 2.8 | 4,481 | 3,884 |
| | | **35,463** | **189,198** |
| | **TOTAL** | **35,463** | **189,198** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Sameer Natu**
Director

**M. V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Sales, net | | 70,766 | 172,920 |
| License fees | | 1,412 | 19,842 |
| **Revenue from operations** | | **72,178** | **192,763** |
| Other income | 2.9 | 275 | 22 |
| **Total revenue** | | **72,453** | **192,785** |
| **Expenses** | | | |
| Cost of material consumed (including packing material consumed) | | 28,468 | 66,402 |
| Employee benefits expense | 2.10 | 4,838 | 4,492 |
| Finance costs | 2.11 | 9,617 | 6,487 |
| Other expenses | 2.12 | 20,433 | 40,980 |
| **Total expenses** | | **63,356** | **118,361** |
| **Profit before tax** | | **9,097** | **74,424** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit for the year** | | **9,097** | **74,424** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Sameer Natu**
Director

**M. V. Narasimham**
Director

Place : Hyderabad
Date : 10 May 2013

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

## Note 1: Significant accounting policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**d) Retirement benefits**

Contributions payable to employees, pension and social security schemes, which are defined contribution schemes, are charged to the statement of profit and loss.

**e) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**f) Revenue recognition**

*Sale of goods*

Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, sales tax and applicable trade discounts and allowances. Revenue includes shipping and handling costs billed to the customer.

*License fee*

The Company enters into certain dossier sales, licensing and supply arrangements with various parties. Some of these arrangements include certain performance obligations by the Company. Revenue from such arrangements is recognized in the period in which the Company completes all its performance obligations.

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**g) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 5,566,000 (previous year 5,566,000) shares of Euro 1 each | 321,090 | 321,090 |
| **Issued** | | |
| 5,566,000 (previous year 5,566,000) shares of Euro 1 each | 321,090 | 321,090 |
| **Subscribed and paid-up** | | |
| 5,566,000 (previous year 5,566,000) shares of Euro 1 each | 321,090 | 321,090 |
| | 321,090 | **321,090** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 5,566,000 | 321,090 | 5,566,000 | 321,090 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 5,566,000 | 321,090 | 5,566,000 | 321,090 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy’s Laboratories Limited | 5,566,000 | 100 | 5,566,000 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 8,443 | 27,206 |
| Additions / (deductions) during the year | (7,188) | (18,763) |
| | 1,255 | 8,443 |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 41 | 41 |
| Additions / (deductions) during the year | - | - |
| | 41 | 41 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (554,794) | (629,219) |
| Add: Current year profit | 9,097 | 74,424 |
| Balance carried forward | (545,697) | (554,794) |
| | **(544,401)** | **(546,310)** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | 41 | 373,311 |
| | **41** | **373,311** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | 1,853 | 3,167 |
| | **1,853** | **3,167** |
| **b) Other current liabilities** | | |
| Accrued expenses | 6,772 | 15,026 |
| Due to statutory authorities | 272 | 679 |
| Other current liabilities | 1,390 | 1,315 |
| | **8,434** | **17,020** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | - | 19,579 |
| Payables to others | 3,518 | 1,341 |
| | **3,518** | **20,920** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Trade Receivables** | | |
| **(Unsecured)** | | |
| Debts outstanding for a period exceeding six months | | |
| Considered doubtful | 4 | - |
| Other debts | | |
| Considered good | - | 71,127 |
| | 4 | 71,127 |
| *Less*: Provision for doubtful debts | (4) | - |
| | **-** | **71,127** |
| **2.7 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 30,982 | 114,187 |
| | **30,982** | **114,187** |
| **2.8 : Short term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Other Advances | 4,481 | 3,884 |
| | **4,481** | **3,884** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Lakhs, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.9 : Other income** | | |
| Interest income | 275 | 18 |
| Foreign exchange gain, net | - | 4 |
| | **275** | **22** |
| **2.10 : Employee benefits expense** | | |
| Salaries, wages and bonus | 4,838 | 4,492 |
| | **4,838** | **4,492** |
| **2.11 : Finance costs** | | |
| Interest Expenses | 9,617 | 6,487 |
| | **9,617** | **6,487** |
| **2.12 : Other expense** | | |
| Legal and professional | 8,425 | 7,393 |
| Rates and taxes | - | 10 |
| Other selling expenses | 9,043 | 30,752 |
| Travelling and conveyance | 391 | 647 |
| Communication | 190 | 177 |
| Rent | 909 | 837 |
| Insurance | 18 | 17 |
| Bank charges | 435 | 169 |
| Miscellaneous | 1,022 | 978 |
| | **20,433** | **40,980** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.13: Commitments and contingent liabilities**

There were no commitments or contingent liabilities as on 31 March 2013 (previous year: Nil).

**2.14: Related Party Disclosures:**

The company has the following amount due to/from related parties :

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in long term borrowings): | | |
| | Dr. Reddys Laboratories SA | - | 373,271 |
| | Dr. Reddy's Laboratories (UK) Limited | 41 | 40 |
| ii. | Due to related parties (included in Trade Payables ): | | |
| | Dr.Reddy's Laboratories Limited | - | 19,579 |

**2.15: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.16.** The Company, incorporated in Iberia, Spain is a 100% subsidiary of Dr. Reddy's Laboratories Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Sameer Natu**
Director

**M. V. Narasimham**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Loss for the period after taxation | (13,815) | (11,161) |
| Balance brought forward | (93,867) | (82,705) |
| Balance carried forward to Balance Sheet | (107,682) | (93,867) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. We have prepared the Annual Accounts on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

Place : Hyderabad
Date : 10 May 2013

**Sameer Natu**
Director

**Satish Reddy**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Pharma Italia S.p.A.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A.Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A.Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 62,794 | 62,794 |
| Reserves and surplus | 2.2 | (113,207) | (94,077) |
| | | **(50,413)** | **(31,283)** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | 1,090,724 | 997,313 |
| Other long term liabilities | 2.4 | - | 10,881 |
| | | **1,090,724** | **1,008,194** |
| **Current liabilities** | | | |
| Trade payables | 2.5 | 2,919 | 11,002 |
| Other current liabilities | 2.4 | 11,291 | 18,833 |
| Short term provisions | 2.6 | 427 | 1,357 |
| | | **14,637** | **31,192** |
| | **TOTAL** | **1,054,948** | **1,008,103** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Tangible assets | 2.7 | 521 | 270 |
| Non current investments | 2.8 | 172,878 | 172,878 |
| Long term loans and advances | 2.9 | 812,405 | 749,088 |
| | | **985,804** | **922,236** |
| **Current assets** | | | |
| Cash and bank balances | 2.10 | 393 | 3,082 |
| Short term loans and advances | 2.11 | 2,376 | 1,195 |
| Other current assets | 2.12 | 66,375 | 81,590 |
| | | **69,144** | **85,867** |
| | **TOTAL** | **1,054,948** | **1,008,103** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**Sameer Natu**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| License fees | | 1,421 | 4,365 |
| Other operating revenues | | 28,338 | 24,339 |
| **Total revenue** | | **29,759** | **28,704** |
| **Expenses** | | | |
| Employee benefits expense | 2.13 | 27,116 | 23,981 |
| Depreciation and amortization expense | 2.7 | 352 | 298 |
| Other expenses | 2.14 | 16,106 | 15,586 |
| **Total expenses** | | **43,574** | **39,865** |
| **Profit/ (Loss) before tax** | | **(13,815)** | **(11,161)** |
| Tax expense | | | |
| Current tax | | - | - |
| Deferred tax | | - | - |
| **Profit/ (Loss) for the year** | | **(13,815)** | **(11,161)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Sameer Natu**
Director

**Satish Reddy**
Director

## Note 1: Significant Accounting Policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India (“GAAP”) and comply with the mandatory Accounting Standards (“AS”) notified by the Central Government of India under Section 211(3C) of the Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of the Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with the Section 212 of the Companies Act, 1956.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company’s normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company’s normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

## Note 1: Significant Accounting Policies (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

### d) Tangible assets and depreciation

Tangible fixed assets are stated at the cost of acquisition less accumulated depreciation. The cost of tangible fixed assets includes taxes, duties, freight and other incidental expenses related to the acquisition and installation of the respective assets.

Subsequent expenditure related to an item of tangible fixed asset is capitalised only if it increases the future benefits from the existing assets beyond its previously assessed standards of performance.

Advances paid towards acquisition of tangible fixed assets outstanding at each balance sheet date are shown under long-term loans and advances. Cost of assets not ready for intended use, as on the balance sheet date, is shown as capital work-in-progress.

Depreciation on tangible fixed assets is provided using the straight-line method based on the useful life of the assets as estimated by Management. Depreciation is calculated on a pro-rata basis from the date of installation till the date the assets are sold or disposed off. Individual assets costing less than ₹ 5,000/- are depreciated in full in the year of acquisition.

Leasehold land is depreciated over the period of the lease.

Management's estimates of the useful lives for various categories of tangible fixed assets are given below:

| | **Years** |
|---|---|
| Furniture, fixtures and office equipment (other than computer equipment) | 3 to 5 |

### e) Investments

Investments that are readily realisable and intended to be held for not more than one year from the date of acquisition are classified as current investments. All other investments are classified as non-current investments.

Non-current investments are carried at cost less any other-than-temporary diminution in value, determined separately for each individual investment. The reduction in the carrying amount is reversed when there is a rise in the value of the investment or if the reasons for the reduction no longer exist. Any reduction in the carrying amount and any reversal in such reductions are charged or credited to the statement of profit and loss.

Current investments are carried at the lower of cost and fair value. The comparison of cost and fair value is done separately in respect of each category of investment.

### f) Foreign currency transactions, balances and translation of financial statements

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

**Note 1: Significant Accounting Policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**g) Provisions and contingencies**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements (continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 120,000 (previous year 120,000) Equity share of 1 Euro each | 62,794 | 62,794 |
| **Issued** | | |
| 120,000 (previous year 120,000) Equity share of 1 Euro each | 62,794 | 62,794 |
| **Subscribed and paid-up** | | |
| 120,000 (previous year 120,000) Equity share of 1 Euro each | 62,794 | 62,794 |
| | **62,794** | **62,794** |

**(a) Reconciliation of the shares outstanding at the beginning and at the end of reporting period**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | Amount | No. of equity shares | Amount |
| Number of shares at the beginning of the year | 120,000 | 62,794 | 120,000 | 62,794 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | 120,000 | 62,794 | 120,000 | 62,794 |

**(b) Terms/rights attached to shares**

The company has only one class of equity shares having a par value of Euro 1 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of equity shares | % of equity shares held | No. of equity shares | % of equity shares held |
| Lacock Holdings Limited | 120,000 | 100 | 120,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | (210) | 12,398 |
| Additions / (deductions) during the year | (5,315) | (12,608) |
| | (5,525) | (210) |
| ***Deficit*** | | |
| Balance at the beginning of the year | (93,867) | (82,705) |
| Add: Current year loss | (13,815) | (11,161) |
| Balance carried forward | (107,682) | (93,867) |
| | **(113,207)** | **(94,077)** |
| **2.3 : Long term borrowings** | | |
| Borrowings from holding company and other group companies | 1,090,724 | 997,313 |
| | **1,090,724** | **997,313** |
| **2.4 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Deferred revenue - non current | - | 10,881 |
| | **-** | **10,881** |
| **b) Other current liabilities** | | |
| Accrued expenses | 6,908 | 12,320 |
| Due to statutory authorities | 202 | - |
| Other current liabilities | 4,181 | 6,513 |
| | **11,291** | **18,833** |
| **2.5 : Trade Payables** | | |
| Payables to holding company and other group companies | - | 11,002 |
| Payables to others | 2,919 | - |
| | **2,919** | **11,002** |
| **2.6 : Short term provisions** | | |
| Income tax payable | 427 | 1,357 |
| | **427** | **1,357** |

## Note 2 : Notes to financial statements (continued)

### 2.7 : Fixed assets

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Depreciation | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01.04.2012 | Additions | Deletions | Forex | As at 31.03.2013 | As at 01.04.2012 | For the year | Deletions | Forex | As at 31.03.2013 | As at 31.03.2013 | As at 31.03.2012 |
| Land - Leasehold | 1,528 | - | - | 48 | 1,576 | 1,258 | 283 | - | 14 | 1,555 | 21 | 270 |
| Furniture and Fixtures | 307 | 530 | - | 41 | 878 | 307 | 69 | - | 2 | 378 | 500 | - |
| **TOTAL** | **1,835** | **530** | **-** | **89** | **2,454** | **1,565** | **352** | **-** | **16** | **1,933** | **521** | **270** |
| Previous year | 2,173 | - | 338 | - | 1,835 | 1,267 | 298 | - | - | 1,565 | 270 | |

## Note 2 : Notes to financial statements (continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.8 : Non current investments** | | |
| Investments in Subsidiaries | 172,878 | 172,878 |
| Less: Provision for decline, other than temporary, in the value of long term investments | - | - |
| | **172,878** | **172,878** |
| **2.9 : Long term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | 811,702 | 748,579 |
| Security Deposits | 703 | 509 |
| | **812,405** | **749,088** |
| **2.10 : Cash and bank balances** | | |
| Cash on hand | 9 | 15 |
| Bank balances | | |
| In current accounts | 384 | 3,067 |
| | **393** | **3,082** |
| **2.11 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Balances with Statutory Agencies | 1,568 | 377 |
| Prepaid expenses | 527 | 818 |
| Other Advances | 281 | - |
| | **2,376** | **1,195** |
| **2.12 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | 65,916 | 81,098 |
| Other current assets | 459 | 492 |
| | **66,375** | **81,590** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.13 : Employee benefits expense** | | |
| Salaries, wages and bonus | 27,116 | 23,981 |
| | **27,116** | **23,981** |
| **2.14 : Other expense** | | |
| Legal and professional | 3,581 | 3,914 |
| Other selling expenses | 2 | 1,352 |
| Travelling and conveyance | 3,076 | 139 |
| Communication | 291 | 239 |
| Rent | 6,104 | 6,538 |
| Printing and stationery | 1,462 | 1,032 |
| Bank charges | 104 | 219 |
| Auditors' remuneration | | |
| Audit fees | 728 | 685 |
| Miscellaneous | 758 | 1,469 |
| | **16,106** | **15,586** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.15. Commitments and contingent liabilities**

There were no commitments and contingent liabilities as at 31 March 2013 (Previous Year – NIL).

**2.16. Related party disclosures**

The Company has following amounts due from/ to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due to related parties (included in long term borrowings): Lacock Holdings Limited | 1,090,724 | 997,313 |
| ii. | Due from related parties (included in long term loans and advances): Dr. Reddy's Srl | 811,702 | 748,579 |
| iii. | Due to related parties (included in Trade payables): Dr. Reddy's Srl | - | 11,002 |
| iv. | Due from related parties (included in Other Current Assets): Dr. Reddy's Srl | 65,916 | 81,098 |

**2.17: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.18:** The Company, incorporated in Italy, is a 100% subsidiary of Lacock Holdings Limited.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Sameer Natu**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 10 May 2013

# DIRECTORS' REPORT

Dear Members,

Your Directors present this report of the Company for the period from 1 April 2012 to 19 October 2012. The Company was dissolved on 19 October 2012.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period from 1 April 2012 to 19 October 2012 as compared to previous financial year:

(₹ in Thousands)

| **Particulars** | **01 April 2012 - 19 October 2012** | **01 April 2011 - 31 March 2012** |
|---|---|---|
| Loss for the period after taxation | (6,084) | (1,544) |
| Balance brought forward | (51,937) | (50,393) |
| Deficiency transferred to Share Capital | 58,021 | - |
| Balance carried forward to Balance Sheet | - | (51,937) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the period ended 19 October 2012 and of loss of the Company for that period;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

**Satish Reddy** — Director

**G.V. Prasad** — Director

Place : Hyderabad
Date : 19 October 2012

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy Pharmaceuticals Hong Kong Limited,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 19 October 2012, and the Statement of Profit and Loss for the period from 1 April 2012 to 19 October 2012, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 19 October 2012; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period from 1 April 2012 to 19 October 2012; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 19 October 2012

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 19 October 2012 | As at 31 March 2011 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | - | 58,021 |
| Reserves and surplus | 2.2 | - | (51,921) |
| | | **-** | **6,100** |
| **Current liabilities** | | | |
| Trade payables | 2.3 | - | 2,472 |
| | | **-** | **2,472** |
| | **TOTAL** | **-** | **8,572** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Long term loans and advances | 2.4 | - | 4,118 |
| | | **-** | **4,118** |
| **Current assets** | | | |
| Short term loans and advances | 2.5 | - | 3,574 |
| Other current assets | 2.6 | - | 880 |
| | | **-** | **4,454** |
| | **TOTAL** | **-** | **8,572** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

*for* **and on behalf of the Board of Directors**

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

**Satish Reddy**
Director

**G.V. Prasad**
Director

Place : Hyderabad
Date : 19 October 2012

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 1 April 2012 - 19 October 2012 | For the period 1 April 2011- 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other income | 2.7 | 2,659 | - |
| **Total revenue** | | **2,659** | **-** |
| **Expenses** | | | |
| Other expenses | 2.8 | 8,743 | 1,544 |
| **Total expenses** | | **8,743** | **1,544** |
| **Profit / (Loss) before tax** | | **(6,084)** | **(1,544)** |
| Tax expense | | **-** | **-** |
| **Profit / (Loss) for the period** | | **(6,084)** | **(1,544)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 19 October 2012

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### a) Basis of preparation of financial statements

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India, provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

The Company was dissolved on 19 October 2012.

### b) Foreign currency transactions, balances and translation of financial statements

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 19 October 2012 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Nil (previous year 12,000,000) shares of HK$ 1 each | - | 59,893 |
| **Issued** | | |
| Nil (previous year 11,625,000) shares of HK$ 1 each | - | 58,021 |
| **Subscribed and paid-up** | | |
| 11,625,000 shares of HK$ 1 each | 58,021 | 58,021 |
| Less : Balance in surplus account transferred to Share capital on dissolution | (58,021) | - |
| Nil (previous year 11,625,000) shares of HK$ 1 each | **-** | **58,021** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 19 October 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 11,625,000 | 58,021 | 11,625,000 | 58,021 |
| Less : On dissolution of the entity | (11,625,000) | (58,021) | - | - |
| Number of shares outstanding at the end of the period | - | - | 11,625,000 | 58,021 |

**(b) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 19 October 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | - | - | 11,625,000 | 100 |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 19 October 2012 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 16 | 16 |
| Additions / (deductions) during the year | - | - |
| Less: Transferred to statement of profit and loss on disposal of investments | (16) | - |
| | - | 16 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (51,937) | (50,393) |
| Add: Current period loss | (6,084) | (1,544) |
| Less: Transferred to Share capital on dissolution | 58,021 | - |
| | - | (51,937) |
| | **-** | **(51,921)** |
| **2.3 : Trade Payables** | | |
| Payables to others | - | 2,472 |
| | **-** | **2,472** |
| **2.4 : Long term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Loan to holding company and other group companies | - | 4,118 |
| | **-** | **4,118** |
| **2.5 : Short term loans and advances (Unsecured)** | | |
| ***Considered good*** | | |
| Other Advances | - | 3,574 |
| | **-** | **3,574** |
| **2.6 : Other current assets** | | |
| ***Considered good*** | | |
| Other receivables from holding company and other group companies | - | 880 |
| | **-** | **880** |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | For the period 1 April 2012 - 19 October 2012 | For the period 1 April 2011 - 31 March 2012 |
|---|---|---|
| **2.7 : Other income** | | |
| Other Income | 2,643 | - |
| Transfer of exchange differences accumulated in foreign currency translation reserve on disposal of investments | 16 | - |
| | **2,659** | **-** |
| **2.8 : Other expense** | | |
| Foreign exchange loss, net | 7,818 | 25 |
| Miscellaneous | 925 | 1,519 |
| | **8,743** | **1,544** |

**2.9: Related party disclosures**

The Company has the following amounts due from/to related parties:

| Particulars | As at 19 October 2012 | As at 31 March 2012 |
|---|---|---|
| Due from related parties (Included in Long term loans and advances and other current assets) | | |
| Dr. Reddy's Laboratories Limited | - | 4,998 |

**2.10: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.11:** The entity was dissolved during the year on 19 October 2012.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 19 October 2012

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G.V. Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present the Annual Report of the Company for the year ended 31 March 2013.

**Financial Highlights**

The following table gives the financial highlights of the Company for the financial year 2012-13 as compared to previous financial year:

(₹ in Thousands)

| Particulars | 31 March 2013 | 31 March 2012 |
|---|---|---|
| Profit/ (Loss) for the period after taxation | (22,237) | 10,669 |
| Balance brought forward | (73,775) | (84,445) |
| Balance carried forward to Balance Sheet | (96,012) | (73,775) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year 2012-13 and of loss of the Company for that period;
3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
4. On 28 September 2012, we resolved to dissolve the entity and hence the accounts of the company are not prepared on going concern basis.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the year.

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G V Prasad**
Director

Place : Hyderabad
Date : 10 May 2013

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Reddy US Therapeutics Inc.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 31 March 2013, and the Statement of Profit and Loss for the year ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act,1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2013; and

(b) in the case of the Statement of Profit and Loss, of the Loss for the year ended on that date; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 10 May 2013

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | 93,652 | 93,652 |
| Reserves and surplus | 2.2 | (91,816) | (70,940) |
| | | **1,836** | **22,712** |
| **Non current liabilities** | | | |
| Other long term liabilities | 2.3 | - | 254 |
| | | **-** | **254** |
| **Current liablities** | | | |
| Other current liabilities | 2.3 | - | 4,113 |
| | | **-** | **4,113** |
| | **TOTAL** | **1,836** | **27,079** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Long term loans and advances | 2.4 | - | 119 |
| | | **-** | **119** |
| **Current assets** | | | |
| Trade receivables | 2.5 | - | 24,788 |
| Cash and bank balances | 2.6 | 1,836 | 2,172 |
| | | **1,836** | **26,960** |
| | **TOTAL** | **1,836** | **27,079** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G V Prasad**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Service income | | - | 5 |
| Other operating revenues | | - | 14,123 |
| **Revenue from operations** | | **-** | **14,128** |
| Other income | 2.7 | - | 100 |
| **Total revenue** | | **-** | **14,228** |
| **Expenses** | | | |
| Other expenses | 2.8 | 22,237 | 3,559 |
| **Total expenses** | | **22,237** | **3,559** |
| **Profit/ (Loss) before tax** | | **(22,237)** | **10,669** |
| Tax expense | | - | - |
| **Profit / (Loss) for the year** | | **(22,237)** | **10,669** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G V Prasad**
Director

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

On 28 September 2012, the Board of Directors of the Company resolved to dissolve the entity and hence the accounts of the company are not prepared on going concern basis.

**b) Use of estimates**

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities on the date of the financial statements and reported amounts of revenues and expenses for the year. Examples of such estimates include estimation of useful life of tangible and intangible assets, assessment of recoverable amounts of deferred tax assets, provision for obligations relating to employees, provisions against litigations and impairment of assets. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revision to accounting estimates is recognised prospectively in the current and future periods.

**c) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the statement of profit and loss.

Monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are translated using the foreign exchange rates as at the balance sheet date. The resultant exchange differences are recognised in the statement of profit and loss. Non-monetary assets and liabilities are carried at the rates prevailing on the date of transaction.

**d) Current and non current classification**

All the assets and liabilities have been classified as current or non current as per the Company's normal operating cycle and other criteria set out in the Revised Schedule VI to the Companies Act, 1956.

**Assets:**

An asset is classified as current when it satisfies any of the following criteria:

a) it is expected to be realised in, or is intended for sale or consumption in, the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is expected to be realised within 12 months after the reporting date; or

**Note 1: Significant accounting policies (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

d) it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting date.

**Liabilities:**

A liability is classified as current when it satisfies any of the following criteria:

a) it is expected to be settled in the Company's normal operating cycle;

b) it is held primarily for the purpose of being traded;

c) it is due to be settled within 12 months after the reporting date; or

d) the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Current assets/ liabilities include the current portion of non current financial assets/ liabilities respectively. All other assets/ liabilities are classified as non current.

**e) Revenue recognition**

*Interest income*

Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate method.

**f) Provisions and contingent liabilities**

A provision is recognised when the Company has a present obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. Provisions are measured on an undiscounted basis.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. Where there is possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Contingent assets are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognised in the period in which the change occurs.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| 10,000,000 (previous year 10,000,000) shares of USD 0.0001 each | 95,646 | 95,646 |
| **Issued** | | |
| 9,791,500 (previous year 9,791,500) shares of USD 0.0001 each | 93,652 | 93,652 |
| **Subscribed and paid-up** | | |
| 9,791,500 (previous year 9,791,500) shares of USD 0.0001 each | 93,652 | 93,652 |
| | **93,652** | **93,652** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 9,791,500 | 93,652 | 9,791,500 | 93,652 |
| Add: Share issued during the year | - | - | - | - |
| Number of shares outstanding at the end of the year | **9,791,500** | **93,652** | **9,791,500** | **93,652** |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of U.S.$ 0.0001 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 31 March 2013 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Reddy Antilles N. V | 9,791,500 | 100 | 9,791,500 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the year | 2,835 | 259 |
| Additions / (deductions) during the year | 1,361 | 2,576 |
| | 4,196 | 2,835 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (73,775) | (84,445) |
| Add: Current year profit / (loss) | (22,237) | 10,669 |
| Balance carried forward | (96,012) | (73,775) |
| | **(91,816)** | **(70,940)** |
| **2.3 : Other liabilities** | | |
| **a) Other long term liabilities** | | |
| Other Liabilities - Non Current | - | 254 |
| | **-** | **254** |
| **b) Other current liabilities** | | |
| Accrued expenses | - | 309 |
| Salary and Bonus payable | - | 3,670 |
| Other current liabilities | - | 134 |
| | **-** | **4,113** |
| **2.4 : Long term loans and advances** | | |
| **(Unsecured)** | | |
| ***Considered good*** | | |
| Security Deposits | - | 119 |
| | **-** | **119** |
| **2.5: Trade Receivables** | | |
| **(Unsecured)** | | |
| Receivables from holding company and other group companies | - | 24,788 |
| | - | 24,788 |
| *Less*: Provision for doubtful debts | - | - |
| | **-** | **24,788** |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|
| **2.6 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | 1,836 | 2,172 |
| | **1,836** | **2,172** |

| Particulars | For the year ended 31 March 2013 | For the year ended 31 March 2012 |
|---|---|---|
| **2.7 : Other income** | | |
| Interest income | - | 100 |
| | **-** | **100** |
| **2.8 : Other expense** | | |
| Legal and professional | 601 | 218 |
| Rates and taxes | - | 19 |
| Repairs and maintenance | | |
| Plant and machinery | - | 191 |
| Others | 73 | - |
| Miscellaneous | 21,563 | 3,131 |
| | **22,237** | **3,559** |

**Note 2 : Notes to financial statements (continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**2.9: Commitments and contingent liabilities**

There are no commitments and contingent liabilities as on 31 March 2013 (previous year Nil).

**2.10: Related Party Disclosures:**

The Company has following amounts due from/to related parties:

| | Particulars | As at 31 March 2013 | As at 31 March 2012 |
|---|---|---|---|
| i. | Due from related parties<br>(Included in Trade Receivables)<br>Dr. Reddy's Laboratories Limited | - | 24,788 |

**2.11: Comparative figures**

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.12 :** The Company, incorporated in the United States of America, is a 100% Subsidiary of Reddy Antilles N.V.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 10 May 2013

*for* **and on behalf of the Board of Directors**

**Satish Reddy**
Director

**G V Prasad**
Director

# DIRECTORS' REPORT

Dear Members,

Your Directors present this report of the Company for the period from 1 April 2012 to 4 December 2012. The Company was dissolved on 4 December 2012.

**Financial Highlights**

The following table gives the financial highlights of the Company for the period from 1 April 2012 to 4 December 2012 as compared to previous financial year ended 31 March 2012.

(₹ in Thousands)

| **Particulars** | **01 April 2012 - 04 December 2012** | **01 April 2011 - 31 March 2012** |
|---|---|---|
| Profit/ (Loss) for the period after taxation | (17,480) | (1,127) |
| Balance brought forward | (240,631) | (239,504) |
| Deficiency transferred to Share Capital | 258,111 | - |
| Balance carried forward to Balance Sheet | - | (240,631) |

**Directors Responsibility Statement**

In terms of Section 217(2AA) of the Companies Act, 1956, your Directors confirm as under:

1. In preparation of Annual Accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;

2. We have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company for the period ended 4 December 2012 and of loss of the Company for the period from 1 April 2012 to 4 December 2012;

3. We have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

**Conservation of energy, technology absorption, foreign exchange earnings and outgo**

The particulars as prescribed under Section 217(1)(e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are not applicable to your Company.

**Acknowledgement**

Your Directors wish to express their gratitude to all concerned for the co-operation to the Company during the period.

*for* **and on behalf of the Board of Directors**

Place: Hyderabad
Date: 04 December 2012

**G V Prasad**
Director

**Satish Reddy**
Director

# AUDITORS' REPORT

**To**
**The Board of Directors**
Dr. Reddy's Laboratories Limited,
Hyderabad.

We have audited the accompanying financial statements of **Trigenesis Therapeutics Inc.,** a company incorporated and administered outside India, which comprise the Balance Sheet as at 04 December 2012, and the Statement of Profit and Loss for the period from 1 April 2012 to 4 December 2012, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation of these financial statements, prepared to comply with the requirements of section 212 of the Companies Act, 1956, that give a true and fair view of the financial position, financial performance of the company in accordance with the Accounting Standards referred to in sub-section (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

Our responsibility is to express an opinion on these financial statements based on our audit carried out for the limited purpose of complying with sec.212. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, to the extent applicable and relevant. 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 auditor's 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 to the extent applicable and relevant, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

(a) in the case of the Balance Sheet, of the state of affairs of the Company as at 04 December 2012; and

(b) in the case of the Statement of Profit and Loss, of the loss for the period from 1 April 2012 to 4 December 2012; and

As required by section 227(3) of the Act, we report that:

a. we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;

b. in our opinion proper books of account as required by law have been kept by the Company so far as appears from our examination of those books to the extent applicable and relevant to a company incorporated outside India;

c. the Balance Sheet, Statement of Profit and Loss, dealt with by this Report are in agreement with the books of account; and

d. in our opinion, the Balance Sheet, Statement of Profit and Loss, comply with the Accounting Standards referred to in subsection (3C) of section 211 of the Companies Act, 1956, to the extent applicable and relevant to a company incorporated outside India.

For **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN : 002857S

**A. Ramachandra Rao**
*Partner*
Membership No: 9750

Place : Hyderabad
Date : 04 December 2012

## Balance Sheet

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | As at 4 December 2012 | As at 31 March 2012 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' funds** | | | |
| Share capital | 2.1 | - | 9 |
| Reserves and surplus | 2.2 | - | 17,471 |
| | | **-** | **17,480** |
| **Non current liabilities** | | | |
| Long term borrowings | 2.3 | - | 216 |
| | | **-** | **216** |
| | **TOTAL** | **-** | **17,696** |
| **ASSETS** | | | |
| **Non current assets** | | | |
| Fixed assets | | | |
| Intangible assets | 2.4 | - | 17,689 |
| | | **-** | **17,689** |
| **Current assets** | | | |
| Cash and bank balances | 2.5 | - | 7 |
| | | **-** | **7** |
| | **TOTAL** | **-** | **17,696** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 04 December 2012

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

## Statement of Profit and Loss

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | Note | For the period 1 April 2012 - 4 December 2012 | For the period 1 April 2011 - 31 March 2012 |
|---|---|---|---|
| **Income** | | | |
| Other operating revenues | | 232 | - |
| **Revenue from operations** | | **232** | **-** |
| Other income | 2.6 | 3,435 | - |
| **Total revenue** | | **3,667** | **-** |
| **Expenses** | | | |
| Depreciation and amortization expense | 2.4 | 610 | 1,079 |
| Other expenses | 2.7 | 7 | 48 |
| **Total expenses** | | **617** | **1,127** |
| **Profit before exceptional and extraordinary items and tax** | | **3,050** | **(1,127)** |
| Exceptional items | | | |
| - Impairment of intangibles | 2.4 | 20,530 | - |
| **Profit / (Loss) before tax** | | **(17,480)** | **(1,127)** |
| Tax expense | | - | - |
| **Profit / (Loss) for the period** | | **(17,480)** | **(1,127)** |
| **Significant accounting policies** | 1 | | |
| **Notes to financial statements** | 2 | | |

The accompanying notes are an integral part of financial statements.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director

Place : Hyderabad
Date : 04 December 2012

## Note 1: Significant accounting policies

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

**a) Basis of preparation of financial statements**

The financial statements have been prepared and presented in accordance with the accounting principles generally accepted in India ("GAAP") and comply with the mandatory Accounting Standards ("AS") notified by the Central Government of India under section 211(3C) of Companies Act, 1956, other pronouncements of Institute of Chartered Accountants of India and provisions of Companies Act, 1956.

The financial statements have been prepared based on books, records and other returns maintained by the subsidiary. The financial statements have been presented in Indian Rupees, for the limited purpose of complying with section 212 of the Companies Act, 1956.

The Company was dissolved on 4 December 2012.

**b) Foreign currency transactions, balances and translation of financial statements**

Foreign currency transactions are recorded using the exchange rates prevailing on the dates of the respective transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the profit and loss account.

**c) Intangible assets and amortisation**

Intangible assets are recorded at the consideration paid for acquisition including any import duties and other taxes (other than those subsequently recoverable by the enterprise from the taxing authorities), and any directly attributable expenditure on making the asset ready for its intended use.

Intangible assets are amortised on a systematic basis over the best estimate of their useful lives, commencing from the date the asset is available to the Company for its use.

**d) Impairment of assets**

The Company assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets (Cash Generating Unit or CGU) that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its net selling price.

If such recoverable amount of the asset or the recoverable amount of the cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognised in the statement of profit and loss. If at the balance sheet date there is an indication that if a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of amortised historical cost.

## Note 2 : Notes to financial statements

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 4 December 2012 | As at 31 March 2012 |
|---|---|---|
| **2.1 : Share capital** | | |
| **Authorised** | | |
| Nil (previous year 1000) shares of USD 1.01 each | - | 45 |
| **Issued** | | |
| Nil (previous year 206) shares of USD 1.01 each | - | 9 |
| **Subscribed and paid-up** | | |
| 206 shares of $1.01 each | 9 | 9 |
| Add : Balance in securities premium transferred to share capital on dissolution | 258,102 | - |
| Less : Balance in surplus account transferred to share capital on dissolution | 258,111 | - |
| Nil (previous year 206) shares of USD 1.01 each | **-** | **9** |

**(a) Reconciliation of the equity shares outstanding is set out below:**

| Particulars | As at 4 December 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares | Amount | No. of Equity shares | Amount |
| Number of shares outstanding at the beginning of the year | 206 | 9 | 206 | 9 |
| Less: On account of dissolution of the entity | (206) | (9) | - | - |
| Number of shares outstanding as at 4 December 2012 | - | - | 206 | 9 |

**(b) Terms/rights attached to equity shares**

The company has only one class of equity shares having a par value of USD 1.01 per share. Each holder of equity shares is entitled to one vote per share.

**(c) Details of shareholders holding more than 5% shares in the company**

| Particulars | As at 4 December 2012 | | As at 31 March 2012 | |
|---|---|---|---|---|
| | No. of Equity shares held | % equity shares held | No. of Equity shares held | % equity shares held |
| Dr. Reddy's Laboratories Limited | - | - | 206 | 100 |

## Note 2 : Notes to financial statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 04 December 2012 | As at 31 March 2012 |
|---|---|---|
| **2.2 : Reserves and surplus** | | |
| ***Securities premium reserve*** | | |
| Balance at the beginning of the year | 258,102 | 258,102 |
| Additions / (deductions) during the year | - | - |
| Surplus transferred to share capital on dissolution of entity | (258,102) | - |
| | - | 258,102 |
| ***Deficit*** | | |
| Balance at the beginning of the year | (240,631) | (239,504) |
| Add: Current year loss | (17,480) | (1,127) |
| Less: Transferred to capital on account of dissolution | 258,111 | - |
| Balance carried forward | - | (240,631) |
| | **-** | **17,471** |
| **2.3 : Long term borrowings** | | |
| ***Unsecured*** | | |
| Borrowings from holding company and other group companies | - | 216 |
| | **-** | **216** |

**Note 2 : Notes to financial statements (Continued)**

## 2.4 : Fixed assets

(All amounts in Indian Rupees thousands, except share data and where otherwise stated)

| Description | Gross Block | | | | | Amartisation / Impairment | | | | | | Net Block | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | As at 01-04-2012 | Additions | Deletions | Forex | As at 04-12-2012 | As at 01-04-2012 | For the year | Impairment | Deletions | Forex | As at 04-12-2012 | As at 04-12-2012 | As at 31-3-2012 |
| Intangibles | 228,319 | 3,451 | 231,770 | - | - | 210,630 | 610 | 20,530 | 231,770 | - | - | - | 17,689 |
| **TOTAL** | **228,319** | **3,451** | **231,770** | **-** | **-** | **210,630** | **610** | **20,530** | **231,770** | **-** | **-** | **-** | **17,689** |
| Previous year | 228,319 | - | - | - | 228,319 | 209,538 | 1,079 | - | | 13 | 210,630 | 17,689 | |

**Note 2 : Notes to financial statements (Continued)**

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

| Particulars | As at 04 December 2012 | As at 31 March 2012 |
|---|---|---|
| **2.5 : Cash and bank balances** | | |
| Cash on hand | - | - |
| Bank balances | | |
| In current accounts | - | 7 |
| | **-** | **7** |

| Particulars | For the year period 01 April 2012 - 04 December 2012 | For the period 01 April 2011 - 31 March 2012 |
|---|---|---|
| **2.6 : Other income** | | |
| Foreign exchange gain, net | 3,435 | - |
| | **3,435** | **-** |
| **2.7 : Other expense** | | |
| Foreign exchange loss, net | - | 37 |
| Advance written off | 1 | - |
| Bank charges | 6 | 11 |
| | **7** | **48** |

## Note 2 : Notes to Financial Statements (Continued)

(All amounts in Indian Rupees Thousands, except share data and where otherwise stated)

### 2.8 : Related Party Transactions:

The Company has following amounts due from/to related parties:

| Particulars | As at 04 December 2012 | As at 31 March 2012 |
|---|---|---|
| Due from related parties (included in Long term borrowings): | | |
| Dr. Reddy's Laboratories Limited | - | 216 |

### 2.9: Impairment of Intangibles

Following the Company's decision to discontinue its research and development on terbinafine nail lacquer, the Company carried out an impairment test of its intangibles and recorded an impairment loss of the same amounting to ₹ 20,530, during the period ended 4 December 2012.

### 2.10: Comparative figures

Previous year's figures have been regrouped/ reclassified wherever necessary, to conform to current year's classification.

**2.11:** The Company was dissolved on 4 December 2012.

As per our report of even date attached

*for* **A. Ramachandra Rao & Co.**
*Chartered Accountants*
ICAI FRN No. 002857S

**A. Ramachandra Rao**
*Partner*
Membership No. 9750

Place : Hyderabad
Date : 04 December 2012

*for* **and on behalf of the Board of Directors**

**G V Prasad**
Director

**Satish Reddy**
Director