



## INDEPENDENT AUDITORS' REPORT

The Shareholders and the Board of Directors  
**ALKEM LABORATORIES CORPORATION**  
5/F, Filipino Bldg. 135 Dela Rosa Cor. Legaspi Cor  
Bolanos Sts. Legaspi Village,  
Makati City, Metro Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of **ALKEM LABORATORIES CORPORATION** (the "Company"), which comprise the statements of financial position as at March 31, 2017 and 2016, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **ALKEM LABORATORIES CORPORATION** as at March 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

#### *Basis of Opinion*

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

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 to the financial statements which describes significant capital deficiency of the Company amounting to P127,515,880 and P60,295,549 for the years ended March 31, 2017 and 2016, respectively as a result of recurring losses from the previous years, which indicates the existence of a material uncertainty which may cast doubt about the Company's ability to continue as a going concern. The financial statements do not include adjustments that might result from the outcome of this uncertainty.

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Financial Statements*

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

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

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

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

**Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 18 and 19 to the financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

**LEONARDO VICENTE & ASSOCIATES, CPAs**



**EDGARDO A. LEONARDO**

Managing Partner

CPA Certificate No. 36606, issued 10/20/2015 valid through 10/03/2018

SEC Accreditation No. 1437-A, issued 07/31/2014 valid through 07/30/2017

BIR Accreditation No. 08-002616-1-2015, issued 02/18/2015 valid through 02/17/2018

Partner TIN 115-257-343-000

PTR No. 5912905, January 6, 2017, Makati City

Firm BOA Registration No. 1199, issued 10/29/2013 with extended validity until 04/30/2017, pursuant to Board Resolution No. 37, series of 2017

Firm SEC Accreditation No. 0301F, issued 11/25/2014 valid through 11/24/2017

Firm TIN 222-527-897-000

Makati City, Metro Manila

April 28, 2017

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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## COMPANY NAME

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Principal Office (No./Street/Barangay/City/Town/Province)

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Form Type

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Department requiring the report

N	/	A	
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Secondary License type, If Applicable

N	/	A	
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## COMPANY INFORMATION

Company's email Address

rrcsalazar@fnslaw.com.ph

Company's Telephone Number

845-0703

Mobile Number

No. of Stockholders

6

Annual Meeting (Month / Day)

May 31

Fiscal Year (Month / Day)

March 31

## CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Roderick R.C. Salazar III

Email Address

rrcsalazar@fnslaw.com.ph

Telephone Number/s

845-0703

Mobile Number

## CONTACT PERSON'S ADDRESS

6 Ashford Street, Hillsbrough Alabang Village, Makati City

**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete details of the new contact person designated.

**2:** All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Management of **Alkem Laboratories Corporation** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended March 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

Leonardo Vicente & Associates, CPAs, the independent auditor appointed by the stockholders has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

  
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**SANDEEP SINGH**  
President

  
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**RODERICK R.C. SALAZAR III**  
Treasurer

Signed this 27<sup>th</sup> day of April, 2017

**ALKEM LABORATORIES CORPORATION**  
**Comparative Statements of Financial Position**  
**As of March 31**

	<i>Notes</i>		<b>2017</b>		<b>2016</b>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	4	P	14,827,095	P	5,992,970
Receivables	5		27,148,265		39,935,628
Inventories	6		10,790,122		13,132,758
Prepayments and other current assets	7		517,274		2,721,786
<b>Total current assets</b>			<b>53,282,755</b>		<b>61,783,140</b>
<b>Non-current Assets</b>					
Property and equipment, net	8		652,443		890,124
Deferred tax asset	9		9,000,000		29,351,300
<b>Total non-current assets</b>			<b>9,652,443</b>		<b>30,241,424</b>
<b>Total Assets</b>		P	<b>62,935,198</b>	P	<b>92,024,564</b>
<b>LIABILITIES AND CAPITAL DEFICIENCY</b>					
<b>Current Liabilities</b>					
Trade and other payables	10	P	34,716,818	P	33,103,272
<b>Total current liabilities</b>			<b>34,716,818</b>		<b>33,103,272</b>
<b>Non-current Liabilities</b>					
Deposit for future subscription	11		-		2,010,447
Loans payable	11		155,734,260		117,206,394
<b>Total non-current liabilities</b>			<b>155,734,260</b>		<b>119,216,841</b>
<b>Total Liabilities</b>			<b>190,451,078</b>		<b>152,320,113</b>
<b>Capital Deficiency</b>					
Share capital			99,927,200		51,800,000
Deficit			(227,443,080)		(112,095,549)
<b>Total capital deficiency</b>			<b>(127,515,880)</b>		<b>(60,295,549)</b>
<b>Total Liabilities and Capital Deficiency</b>		P	<b>62,935,198</b>	P	<b>92,024,564</b>

*See accompanying notes to financial statements.*

**ALKEM LABORATORIES CORPORATION**  
**Comparative Statements of Comprehensive Income**  
**For the Fiscal Years Ending March 31**

	<i>Notes</i>	<b>2017</b>	<b>2016</b>
<b>Sales</b>	<i>18</i> <b>P</b>	<b>60,934,709</b>	<b>56,123,831</b>
<b>Cost of sales</b>	<i>12</i>	<b>29,928,512</b>	<b>26,395,979</b>
<b>Gross Income</b>		<b>31,006,197</b>	<b>29,727,852</b>
<b>Other Income (expense)</b>			
Interest income	<i>4</i>	<b>86,956</b>	<b>34,190</b>
Unrealized foreign exchange gain		<b>9,489</b>	<b>182,825</b>
Unrealized foreign exchange loss		<b>(19,565,202)</b>	<b>-</b>
Realized foreign exchange gain		<b>3,247</b>	<b>-</b>
<b>Total other income (expense)</b>		<b>(19,465,510)</b>	<b>217,015</b>
<b>Operating Expenses</b>	<i>13</i>	<b>135,908,507</b>	<b>93,396,653</b>
<b>Loss Before Income Tax</b>		<b>(124,367,820)</b>	<b>(63,451,786)</b>
<b>Income Tax Expense (Benefit)</b>			
Current	<i>17</i>	<b>(18,691,362)</b>	<b>(13,668,588)</b>
Deferred	<i>17</i>	<b>6,697,114</b>	<b>6,167,862</b>
<b>Net income tax benefit</b>		<b>(11,994,248)</b>	<b>(7,500,726)</b>
<b>Comprehensive Loss for the Year</b>		<b>(112,373,573)</b>	<b>(55,951,060)</b>
<b>Other Comprehensive Income</b>		<b>-</b>	<b>-</b>
<b>Total Comprehensive Loss for the Year</b>	<b>P</b>	<b>(112,373,573)</b>	<b>P (55,951,060)</b>

*See accompanying notes to financial statements.*

**ALKEM LABORATORIES CORPORATION**  
**Comparative Statements of Changes in Capital Deficiency**  
**For the Fiscal Years Ending March 31**

	Share Capital	Deficit	Total
<b>Share Capital</b>			
Authorized - 1,790,000 shares, P100 par			
Subscribed - 999,272 shares			
Issued and outstanding - 999,272 shares			
Balance at April 1, 2015	P 9,400,000	P (56,144,489)	P (46,744,489)
Issuance of shares	42,400,000	-	42,400,000
Comprehensive loss for the year	-	(55,951,060)	(55,951,060)
Balance at March 31, 2016	51,800,000	(112,095,549)	(60,295,549)
Balance at April 1, 2016	51,800,000	(112,095,549)	(60,295,549)
Issuance of shares	48,127,200	-	48,127,200
Expiration of deferred charges	-	(2,973,959)	(2,973,959)
Comprehensive loss for the year	-	(112,373,573)	(112,373,573)
Balance at March 31, 2017	P 99,927,200	P (227,443,080)	P (127,515,880)

*See accompanying notes to financial statements.*



**ALKEM LABORATORIES CORPORATION**  
**Comparative Statements of Cash Flows**  
**For the Fiscal Years Ending March 31**

	<i>Notes</i>	2017	2016
<b>Cash Flows from Operating Activities</b>			
Net loss for the year	P	(112,373,573)	P (55,951,060)
Adjustments for:			
Expiration of deferred charges	17	(2,973,959)	-
Depreciation	8	852,561	953,826
Deferred tax assets	9	20,351,301	(8,136,307)
Operating loss before working capital changes		(94,143,670)	(63,133,541)
Increase (decrease) in:			
Receivables	5	12,787,363	24,059,750
Inventories	6	2,342,636	111,722
Prepayments and other current assets	7	2,204,511	(2,989)
Trade and other payables	10	1,613,546	(9,002,359)
Net cash used in operating activities		(75,195,613)	(47,967,417)
<b>Cash Flows from Investing Activities</b>			
Acquisition of Property and equipment	8	(614,880)	(120,536)
Cash used in investing activities		(614,880)	(120,536)
<b>Cash Flows from Financing Activities</b>			
Issuance of shares of stock		48,127,200	42,400,000
Deposit for future subscription	11	(2,010,447)	(42,400,000)
Loans payable	11	38,527,866	10,535,060
Net cash provided by financing activities		84,644,619	10,535,060
Net increase (decrease) in cash and cash equivalents		8,834,125	(37,552,893)
Cash and cash equivalents at beginning of the year		5,992,970	43,545,863
<b>Cash and Cash Equivalents at the End of the Year</b>	P	14,827,095	P 5,992,970

*See accompanying notes to financial statements.*

## **ALKEM LABORATORIES CORPORATION**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF AND FOR THE FISCAL YEARS ENDED MARCH 31, 2017 AND 2016**

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#### **1. General Information**

*Alkem Laboratories Corporation* (the "Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on November 7, 2008 primarily to engage in the business of manufacturers, buyers, wholesale sellers, importers, exporters of and/or dealers in pharmaceuticals, drugs, cosmetics, chemicals, food products, oils, powder, veterinary and surgical equipments, medical preparations; to carry on the business of distributors of pharmaceutical specialties like injections, capsules, elixirs, tablets, ointments, etc., cosmetics, pesticides, fertilizer and medical preparations; to manufacture and produce all apparatus, appliances and things used in connection therewith or with any inventions, patents or privileges for the time being belonging to the Corporation; and to manufacture and deal (whether by wholesale or retail) in all other goods and things of such a nature that in the opinion of the Corporation be conveniently manufactured or dealt in with any of the foregoing business.

As of March 31, 2017, the amount of Ninety Nine Million Nine Hundred Twenty Seven Thousand and Two Hundred Pesos (P99,927,200) has been actually subscribed and fully paid.

The Company has suffered recurring losses amounting to P112,373,573 and P55,951,060 for the years ended March 31, 2017 and 2016, respectively, which resulted to a deficit of P227,443,080 and P112,095,549 and capital deficiency of P127,515,880 and P60,295,549 as at March 31, 2017 and 2016, respectively. These conditions, among others, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The financial statements have been prepared on the accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Continuity as a going concern is therefore, dependent on future profitable operations and the availability of funds to meet the obligations as and when they fall due.

The shareholders of the Company have undertaken to provide financial support to the Company, as required, to enable the Company to meet its liabilities as and when they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

The registered office address of the Company is at 5/F, Filipino Bldg. 135 Dela Rosa Cor. Legaspi Cor Bolanos Sts. Legaspi Village, Makati City, Metro Manila.

The accompanying financial statements were approved by the Board of Directors and authorized for issue on April 27, 2017.

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#### **2. Basis of Preparation and Summary of Significant Accounting Policies**

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Standards

Council (IFRIC), which have been approved by the Financial Reporting Standards Council and adopted by the SEC.

The Company availed of the exemption from the mandatory adoption of PFRS for Small and Medium-sized Entities (SMEs) under SEC Notice dated October 11, 2010 by complying with the condition that it is a subsidiary of a foreign parent company that has adopted International Financial Reporting Standards (IFRS). The SEC has defined SMEs as those entities that either have total assets or liabilities, which does not exceed P350 million or P250 million, respectively.

The financial statements have been prepared on a historical cost basis and are presented in Philippine Peso, which is the Company's functional and presentation currency. All values are rounded to the nearest Philippine Peso except as otherwise indicated.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### **Statement of Compliance**

The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on the International Financial Reporting Standards (IFRSs) issued by the Financial Reporting Standards Council (FRSC). PFRSs consist of PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC). These are the Company's first financial statements prepared in accordance with Philippine Financial Reporting Standards (PFRS), where PFRS 1, First-time Adoption of Philippine Financial Reporting Standards, was then applied.

### **Summary of Significant Accounting Policies and Disclosures**

The accounting policies adopted in the preparation of the Company's financial statements are consistent with those of the previous financial year except for the adoption of the following amended PFRS which became effective in January 1, 2015. Except as otherwise indicated, the adoption of the new standards did not have a significant impact on the Company's financial statements.

#### **Amendments to PFRS 10, PFRS 12 and PAS 27- *Investment Entities***

The amendments provide an exception from the requirements of consolidation to investment entities and instead require these entities to present their investments in subsidiaries as a net investment that is measured at fair value. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.

#### **PAS 32, *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014)**

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Company, any changes in offsetting is expected to impact leverage ratios and regulatory capital

requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Company is currently assessing impact of the amendments to PAS 32.

#### *Annual Improvements to PFRSs 2010-2012 Cycle*

Improvements to PFRSs, an omnibus of amendments to standards, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments are effective for annual periods beginning on or after August 1, 2015 and are applied retrospectively. Earlier application is permitted. The amendments to these standards have no impact on the Company's financial statements.

#### *PFRS 2, Share-based Payment - Definition of Vesting Condition*

The objective of this amendment is to clarify the definition of 'vesting conditions' by separately defining a 'performance condition' and a 'service condition'. The Company is currently assessing impact of the amendment to PFRS 2.

#### *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination*

The objective of this amendment is to clarify certain aspects of accounting for contingent consideration in a business combination by:

- a. Deleting the reference to "other applicable PFRSs" in the classification requirements
- b. Deleting the reference to "PAS 37 or other PFRSs as appropriate"
- c. Amending the classification requirements of PFRS 9 to clarify that contingent consideration that is a financial asset or financial liability can only be measured at fair value, with changes in fair value being presented in either profit or loss or other comprehensive income depending on the requirements of PFRS 9.

The Company is currently assessing impact of the amendment to PFRS 3.

#### *PFRS 8, Operating Segments - Aggregation of Operating Segments*

The amendment requires entities to disclose those factors that are used to identify the entity's reportable segments when operating segments have been aggregated. This is to supplement the current disclosure requirements in paragraph 22(a) of PFRS 8. The Company is currently assessing impact of the amendment to PFRS 8.

#### *PFRS 8, Operating Segments - Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendment clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should be disclosed, if that amount is regularly provided to the chief operating decision maker. This proposed amendment is consistent with the requirements in paragraphs 23 and 28(d) in PFRS 8. The Company is currently assessing impact of the amendment to PFRS 8.

#### *PFRS 13, Fair Value Measurement - Short-term Receivables and Payables*

The objective of the amendment is to clarify the PASB's rationale for removing paragraph B5.4.12 of PFRS 9 *Financial Instruments* and paragraph AG79 of PAS 39 *Financial Instruments: Recognition and Measurement* as consequential amendments from PFRS 13 *Fair Value*

*Measurement.* Those paragraphs in PFRS 9 and PAS 39 contained a guidance related to the measurement of short-term receivables and payables with no stated interest rate at invoice amounts. The Company is currently assessing impact of the amendment to PFRS 13.

*PAS 7, Statement of Cash Flows – Interest paid that is capitalized*

This amendment proposes to clarify that the classification of payments of interest that is capitalized shall follow the same classification as the underlying asset into which those payments were capitalized. This modification also covers the classification of payments of interest that have been capitalized into the cost of operating assets (such as inventory), which should be classified as part of an entity's cash flows from operating activities. The Company is currently assessing impact of the amendment to PAS 7.

*PAS 16, Property, Plant and Equipment and PAS 38 Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The objective of this amendment is to clarify the requirements for the revaluation method in PAS 16 *Property, Plant and Equipment* and PAS 38 *Intangible Assets* to address concerns about the calculation of the accumulated depreciation or amortization at the date of the revaluation by:

- a. determination of the accumulated depreciation does not depend on the selection of the valuation technique; and
- b. accumulated depreciation is calculated as the difference between the gross and the net carrying amounts.

The Company is currently assessing impact of the amendment to PAS 16.

*PAS 24, Related Party Disclosures Key Management Personnel*

The amendment propose that the management entity providing KMP services should be identified as a related party of the reporting entity; an exemption should be granted from the detailed disclosure requirements in paragraph 17 of PAS 24 in respect of KMP services provided by a management entity; and payments made to a management entity in respect of KMP services should be separately disclosed by extending the disclosure requirements in paragraph 18 of PAS 24. The Company is currently assessing impact of the amendment to PAS 24.

*Annual Improvements to PFRSs 2011—2013 Cycle*

The Annual Improvements to PFRSs (2011—2013 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after August 1, 2015 and are applied prospectively. Earlier application is permitted. The amendments to these standards have no impact on the Company's financial statements.

*PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning Of 'Effective PFRSs'*

This is to amend the Basis for Conclusions of PFRS 1 to clarify that if a new PFRS is not yet mandatory but permits early application, that PFRS is permitted, but not required, to be applied in the entity's first PFRS financial statements. The Company is currently assessing impact of the amendment to PFRS 1.

*PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The objective of this amendment is to clarify that paragraph 2(a) of PFRS 3 *Business Combinations*:

- a. excludes the formation of all types of joint arrangements as defined in PFRS 11 *Joint Arrangements* from the scope of PFRS 3; and
- b. the scope exception only applies to the financial statements of the joint venture or the joint operation itself.

The Company has no investment/interest in joint ventures.

*PFRS 13, Fair Value Measurement - Portfolio Exception*

The objective of this amendment is to clarify that the portfolio exception applies to all contracts within the scope of PAS 39 *Financial Instruments: Recognition and Measurement* or PFRS 9 *Financial Instruments*, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32 *Financial Instruments: Presentation*. The Company is currently assessing impact of the amendment to PFRS 13.

*PAS 40, Investment Property*

The objective of this amendment is to clarify that judgment is needed to determine whether the acquisition of investment property is the acquisition of an asset, a group of assets or a business combination in the scope of PFRS 3 and that this judgment is based on the guidance in PFRS 3.

The Company is currently assessing impact of the amendment to PFRS 40.

**New Standards and Interpretations Not Yet Adopted**

The Company did not early adopt the following standards and Philippine Interpretations that will become effective subsequent to December 31, 2015. The Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have significant impact on its financial statements.

*Effective in 2016*

*PAS 1, Presentation of Financial Statements – Disclosure Initiative*

The objective of this amendment is to clarify PAS 1 to address perceived impediments to preparers exercising their judgment in presenting their financial reports.

*PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption.

*PAS 16, Property, Plant and Equipment, and PAS 41, Agricultural – Bearer Plants (Amendments)*

The amendments bring bearer plants into the scope of IAS 16. The Company has no bearer plants and has therefore no impact on the Company's financial position or performance.

*PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)*

The amendments reinstate the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements. The Company is currently assessing impact of the amendments to PAS 27.

*PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities and PAS 28, Investments in Associates and Joint Ventures – Sales or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities. The Company is currently assessing impact of the amendments to PFRS 10, PFRS 12 and PAS 27.

*PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)*

The objective was to add new guidance to PFRS 11 *Joint Arrangements* on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The PASB decided that acquirers of such interests shall apply all of the principles on business combinations accounting in PFRS 3 *Business Combinations*, and other PFRSs, that do not conflict with the guidance in PFRS 11 and disclose the information that is required in those IFRSs in relation to business combinations. The Company has no investment/interest in joint ventures.

*PFRS 14, Regulatory Deferral Accounts*

PFRS 14 *Regulatory Deferral Accounts* permits an entity which is a first-time adopter of Philippine Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of PFRS and in subsequent financial statements. Regulatory deferral account balances, and movements in them, are presented separately in the statement of financial position and statement of profit or loss and other comprehensive income, and specific disclosures are required.

*Annual Improvements to PFRSs 2012–2014 Cycle*

The Annual Improvements to PFRSs 2012 – 2014 cycle are effective for annual periods beginning on or after August 1, 2016 and are not expected to have a material impact on the Company. They include:

*PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

The objective of this amendment is to clarify the application of the guidance in PFRS 5 regarding the case of a change in a disposal plan from a plan to sell a division by means of an initial public offering to a plan to spin off a division and distribute a dividend in kind to its shareholders. The Company is currently assessing impact of the amendments to PFRS 5.

*PFRS 7, Financial Instruments: Disclosures – Servicing Contracts*

The objective of this amendment is to add guidance to PFRS 7 to clarify how the principle in paragraph 42C of PFRS 7 is applied to a servicing contract for the purpose of the transfer

disclosure requirements in paragraph 42E-42H of PFRS 7. The Company is currently assessing impact of the amendments to PFRS 7.

*PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

The objective of this amendment is to clarify the applicability of the Amendments to PFRS 7 *Disclosure-Offsetting Financial Assets and Financial Liabilities* issued in December 2011 to condensed interim financial statements. The Company is currently assessing impact of the amendments to PFRS 7.

*PAS 19, Employee Benefits – regional market issue regarding discount rate*

The objective of this amendment is to clarify the application of the requirements of PAS 19 *Employee Benefits* (2011) on determination of the discount rate to a regional market consisting of multiple countries sharing the same currency. The Company is currently assessing impact of the amendments to PAS 19.

*PAS 34, Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

The objective of this amendment is to clarify the meaning of disclosure of information "elsewhere in the interim financial report". The Company is currently assessing impact of the amendments to PAS 34.

*Effective in 2017*

*PAS 12, Income Taxes- Recognition of Deferred Tax Asset for Unrealized Losses (effective January 1, 2017)*

The amendments clarify the following aspects: a) unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; b) the carrying amount of an asset does not limit the estimation of probable future taxable profits; c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and d) an entity assesses a deferred tax asset in combination with other deferred tax assets. The Company is currently assessing impact of the amendments to PAS 12.

*PAS 17, Statement of Cash Flows- Disclosure Initiative (January 1, 2017)*

The amendments in Disclosure Initiative come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The following changes in liabilities arising from financing activities are disclosed (to the extent necessary): a) changes from financing activities; b) changes arising from obtaining or losing control of subsidiaries or other businesses; c) the effect of changes in foreign exchange rates; d) changes in fair value; and e) other changes. The Company is currently assessing impact of the amendments to PAS 17.



*Effective in 2018*

*PFRS 9, Financial Instruments: Classification and Measurement* (effective from January 1, 2018)

PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39.

In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

*PFRS 15, Revenue from Contracts with Customers*

The new standard provides a single, principles based five-step model to be applied to all contracts with customers. There is new guidance on whether revenue should be recognized at a point in time or over time, which replaces the previous distinction between goods and services. The standard provides detailed guidance on various issues such as identifying distinct performance obligations, accounting for contract modifications and accounting for the time value of money. The standard also introduces new guidance on costs of fulfilling and obtaining a contract, specifying the circumstances in which such costs should be capitalized. Costs that do not meet the criteria must be expensed when incurred.

### **Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

### **Foreign Currency Translation**

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'others'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

## **Financial Assets**

Financial assets, which are recognized when the Company becomes a party to the contractual terms of the financial instrument, include cash and other financial instruments. The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

### *(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

### *(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position.

### *(c) Held-to-maturity investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Company has the positive intention and ability to hold the asset until maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are included in non-current assets under financial assets account in the statement of financial position, except those maturing within 12 months from the reporting period, which are presented as part of current assets.

Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

### *(d) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the

investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### *Recognition and measurement*

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of comprehensive income. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'others' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of comprehensive income as part of 'other income' when the Company's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as 'others'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of comprehensive income as part of 'other income'. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as part of 'other income' when the Company's right to receive payments is established.

#### *Derecognition of financial assets*

Derecognition of financial assets occurs when the rights to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

#### *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

#### *Impairment of financial assets*

##### *Assets carried at amortized cost*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset

(a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company uses to determine that there is objective evidence of an impairment loss include: (a) significant financial difficulty of the issuer or obligor; (b) a breach of contract, such as a default or delinquency in interest or principal payments; (c) the group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganization; (e) the disappearance of an active market for that financial asset because of financial difficulties; or (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including: (i) adverse changes in the payment status of borrowers in the portfolio; and (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Company first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the statement of comprehensive income.

#### *Assets classified as available-for-sale*

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Company uses the criteria referred in the assets carried at amortized cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

#### **Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of

three months or less from the date of acquisition and that are subject to an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### **Trade and Other Receivables**

Trade and other receivables, categorized as loans and receivables, are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment.

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortized cost using the effective interest method. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

When a trade and other receivable is uncollectible, it is written against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written-off are recognized in the statement of comprehensive income.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Costs comprise direct materials and when applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method or weighted average method. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distributing the goods.

When net realizable value of the inventories is lower than the cost, the Company provides for an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in the statement of comprehensive income. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold; the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

### **Property and Equipment**

Property and equipment are initially measured at cost. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition, property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditures relating to an item of property, plant and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Depreciation on assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives are as follows:

Leasehold Improvements	3 years
Furniture and Fixtures	3 years
Computer and Software	3 years
Office Equipment	3 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within 'others' in the statement of comprehensive income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

### **Borrowing Costs**

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

### **Impairment of Non-Financial Assets**

At each reporting date, property, equipment, investments in associates and investment property are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of a possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in profit or loss.

Similarly, at each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised of its recoverable amount (selling price less costs to complete and sell, in the case of inventories), but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

### **Borrowings**

Borrowings are recognized initially at the transaction price (that is, the present value of cash payable to the bank, including transaction costs). Borrowings are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in 'finance cost'.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### **Trade Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### **Provisions and Contingencies**

Provisions for restructuring costs and legal claims are recognized when: (a) the Company has a present legal or constructive obligation as a result of past events; (b) it is probable that a transfer of economic benefits will be required to settle the obligation; and (c) the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

The Company does not recognize a contingent liability as a liability, except for provisions for contingent liabilities of an acquiree in a business combination.

The Company does not recognize a contingent asset as an asset.

### **Share Capital**

Ordinary shares are classified as equity.

Share capital represents the nominal value of shares that have been issued.

Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Retained earnings include all current and prior period results of operations as disclosed in the statement of comprehensive income.

### **Revenue Recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's activities. Revenue is measured at the fair value of the consideration received or receivable, net of value-added tax, returns, rebates and discounts.

The Company recognizes revenue when: (a) the amount of revenue can be reliably measured; (b) it is probable that future economic benefits will flow to the entity; and (c) specific criteria have met for each of the Company's activities, as described below.

### *Sales of goods*

Revenue from sales of goods is recognized when the goods are delivered and title has passed. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied.

### *Interest income*

Interest income is recognized when earned and is presented net of final tax withheld by the bank.

### **Expense Recognition**

Expenses are recognized in the statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in the statement of comprehensive income on the basis of: (a) a direct association between the costs incurred and the earning of specific items of income; (b) systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (c) immediately, when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statement of financial position as an asset.

### **Income Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable income for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognized for all temporary differences that are expected to reduce taxable income in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable income, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable income. Any adjustments are recognized in profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable income (taxable loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

### **Leases**

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to income on a straight-line basis over the term of the relevant lease. Leases of property and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are depreciated and assessed for impairment losses in the same way as owned assets. Finance



leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is apportioned between the liability and finance charges using the effective interest method. Finance charges are deducted in measuring income. Rental obligations, net of finance charges, are included in borrowings in the statement of financial position. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

## **Employee Benefits**

### *Post-employment benefits*

#### *Defined contribution plan*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

#### *Defined benefit plan*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan 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 unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on high credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan liabilities.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income.

#### *Other long-term employee benefits*

The Company's net obligation in respect of long-term employee benefits other than pension plans is 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, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on high credit-rated bonds that have maturity dates approximating the terms of the Company's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

#### *Termination benefits*

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

#### *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### *Profit-sharing and bonus plans*

The Company recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

The Company does not have any defined benefit plans for the employees during the year.

#### *Provision for retirement benefits*

Under Republic Act no. 7641 (known as the Retirement Law), in the absence of a retirement plan or agreement providing for retirement benefits of employees upon reaching the age of 60 years or more, but not beyond 65 years, who has served at least 5 years in a private company, may retire and shall be entitled to retirement pay equivalent to at least  $\frac{1}{2}$  month salary for every year of service, fraction of at least  $\frac{1}{2}$  month salary for every year of service, a fraction of at least 6 months being considered as a whole year. The amount was determined based on the benefits accruing to qualified employees up to age 60 and amortized over the remaining working life of employees.

Management is currently studying the adoption of a formal retirement plan.

### **Borrowing Costs**

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when the expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

### **Related Party Transactions and Relationships**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Such relationships also exist between and/or among the reporting enterprises and its key management personnel, directors, or its shareholders.

### **Events after the End of the Reporting Period**

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

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## **3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

### **Critical Management Judgments in Applying Accounting Policies**

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

#### *Impairment of financial assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Company's financial assets, management concluded that none of the assets are impaired as of March 31, 2017 and 2016. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

#### *Distinction between investment properties and owner-managed properties*

The Company determines whether a property qualifies as investment property. In making its judgment, the Company considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

#### *Operating and finance leases*

Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards or ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

#### **Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Estimating useful lives of assets*

The useful lives of the Company assets with definite life are based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the Company assets. Based on management's assessment as at March 31, 2017, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

#### *Allowance for impairment of trade and other receivables*

Allowance is made for specific and group of accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers' current credit status based on known market forces, average age of accounts, collection experience and historical loss experience.

#### *Determination of financial assets and liabilities*

The Company carries some of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through debt exchange and restructuring are required to be carried at fair value at the time of the debt exchange and restructuring. While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rates, the amount of changes in fair value would differ if the Company utilized different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect directly the profit or loss and equity.

#### *Revenue recognition*

The recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and receivables.

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#### **4. Cash and Cash Equivalents**

This account consists of cash in bank in the amount of P 14,827,095 and P 5,992,970 for the years ended March 31, 2017 and 2016, respectively.

Cash in banks earn interest at the respective bank deposit rates. The cash and cash equivalents of the Company as of March 31, 2017 and 2016 are not legally restricted as to withdrawal.

Interest income earned from cash and cash equivalents amounted to P 86,956 and P 34,190 for the years ended March 31, 2017 and 2016, respectively.

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#### **5. Receivables**

This account consists of:

		2017		2016
Trade receivables	P	21,696,719	P	39,325,265
Other accounts receivable		4,224,503		95,195
Other receivables		878,820		-
Accounts receivable - employees		348,223		515,168
<b>Total</b>	<b>P</b>	<b>27,148,265</b>	<b>P</b>	<b>39,935,628</b>

Trade receivables – consist of regular trade receivables. These are non-interest bearing and are normally settled on 60 to 90 days' term, and some settled on 120 days' term.

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Accounts receivable from employees' are subject for liquidation within a year.

Other receivables account is composed of:

		2017		2016
Employee Advances - Marketing		793,960		-
Employee Advances - OPEX		84,860		-
<b>Total</b>	<b>P</b>	<b>878,820</b>	<b>P</b>	<b>-</b>

## 6. Inventories

This account consists of inventories in the amount of P 10,790,122 and P 13,132,758 for the years ended March 31, 2017 and 2016 respectively and are stated at cost.

Inventories are valued at the lower of cost or net realizable value.

None of the inventories are placed in pledge or trust agreements.

## 7. Prepayments and Other Current Assets

This account consists:

		2017		2016
Security deposits	P	443,785	P	333,250
Creditable withholding tax		60,809		1,192
Creditable withholding tax - receivable		12,681		245,228
Advances to employees and officers		-		1,676,645
VAT input		-		398,506
Prepayments		-		66,964
<b>Total</b>	<b>P</b>	<b>517,274</b>	<b>P</b>	<b>2,721,785</b>

Advances to employees and officers consists of non-interest bearing advances to employees used for operating and marketing expenses

## 8. Property and Equipment, net

As of March 31, 2017:

		Leasehold Improvement		Furniture & Fixtures at Cost		Computer & Software		Office Equipment		Total
<b>Cost</b>										
Balance, April 1, 2016	P	1,796,056	P	444,573	P	568,929	P	89,196	P	2,898,754
Additions		-		311,904		177,563		125,413		614,880
Balance, March 31, 2017		1,796,056		756,477		746,492		214,609		3,513,634
<b>Accumulated Depreciation</b>										
Balance, April 1, 2016		1,347,041		273,366		358,564		29,658		2,008,630
Provision		449,015		188,781		170,252		44,513		852,561
Balance, March 31, 2017		1,796,056		462,147		528,816		74,171		2,861,191
<b>Carrying Amounts</b>										
March 31, 2016		449,015		171,207		210,364		59,539		890,124
<b>March 31, 2017</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>294,330</b>	<b>P</b>	<b>217,676</b>	<b>P</b>	<b>140,438</b>	<b>P</b>	<b>652,443</b>

As of March 31, 2016:

		Leasehold Improvement		Furniture & Fixtures at Cost		Computer & Software		Office Equipment		Total
<b>Cost</b>										
Balance, April 1, 2015	P	1,796,056	P	444,573	P	526,071	P	11,518	P	2,778,218
Additions		-		-		42,857		77,679		120,536
Balance, March 31, 2016		1,796,056		444,573		568,928		89,197		2,898,754
<b>Accumulated Depreciation</b>										
Balance, April 1, 2015		748,356		125,175		174,874		6,399		1,054,804
Provision		598,685		148,191		183,691		23,259		953,826
Balance, March 31, 2016		1,347,041		273,366		358,565		29,658		2,008,630
<b>Carrying Amounts</b>										
March 31, 2015		1,047,700		319,398		351,198		5,119		1,723,414
March 31, 2016	P	-	P	171,207	P	210,363	P	59,539	P	890,124

Management believes that there is no indication of impairment on the carrying value of its property and equipment as of March 31, 2017. Likewise, the Company has no contractual commitments for the acquisition of property and equipment.

## 9. Deferred Tax Assets

This account consists of:

		2017		2016
Deferred tax asset - NOLCO	P	9,000,000	P	26,997,530
Deferred tax asset - MCIT		-		2,353,770
<b>Total</b>	<b>P</b>	<b>9,000,000</b>	<b>P</b>	<b>29,351,300</b>

## 10. Trade and Other Payables

This account consists of:

		2017		2016
Accounts payables	P	22,065,861	P	26,494,973
Accrued interest payable		11,347,467		4,803,857
Withholding taxes payable		609,448		326,675
SSS/PHIC/HDMF payable		322,251		348,849
Salaries payable		299,394		983,779
Vat payable		72,396		-
Income tax payable		-		145,138
<b>Total</b>	<b>P</b>	<b>34,716,818</b>	<b>P</b>	<b>33,103,272</b>

Accounts payable consists of regular trade payables. These are non-interest bearing and are normally settled on 60 to 90 days' term.

Accrued interest payable represents nine percent (9%) interest per annum on loans availed from Alkem India.

Salaries payable represents payables to employees for unutilized leaves.

Withholding taxes and government remittances are normally remitted within 10 days from the close of each month.

## 11. Related Party Transactions

The Company's related parties include its parent company, wholly owned subsidiaries, associates, the Company's key management and others as described below.

Related Parties		Loans Payable	Trade Payable - Alkem India	Purchases - Alkem India	Deposit for future subscription
Alkem Ltd - India	2017	155,734,260	14,167,762	17,755,631	-
	2016	117,206,394	17,363,009	9,825,894	2,010,447
<b>As of March 31, 2017</b>		<b>155,734,260</b>	<b>14,167,762</b>	<b>17,755,631</b>	<b>-</b>
<b>As of March 31, 2016</b>		<b>117,206,394</b>	<b>17,363,009</b>	<b>9,825,894</b>	<b>2,010,447</b>

The long term loans payable from parent company, Alkem LTD consists of nine percent (9%) interest per annum and used to sustain working capital requirements of the Company. This amount is unsecured and has no fixed repayment terms.

Accounts payable – India represents the importation charges of Alkem Philippines shouldered by Alkem India.

## 12. Cost of Sales

This account consists of:

		2017		2016
Inventory, beginning	P	13,132,758	P	13,244,480
Add: Purchases		27,585,876		21,485,579
Total goods available for sale		40,718,633		34,730,059
Less: Inventory, ending		10,790,122		13,132,758
Cost of sales		29,928,512		21,597,301
Other cost of sales		-		4,798,678
<b>Total Cost of Sales</b>	<b>P</b>	<b>29,928,512</b>	<b>P</b>	<b>26,395,979</b>



### 13. Operating Expenses

This account consists of:

		2017		2016
Loss on asset write off	P	29,991,778	P	-
Salaries expense		23,568,845		25,296,002
Bad debts expense		17,220,599		-
Marketing expense		13,980,658		23,925,850
Field OPEX		13,662,356		12,888,644
Other claims		7,735,016		-
Interest expense		6,027,372		4,803,857
Staff Welfare		4,831,498		-
Utilities expense		3,373,368		1,736,736
Training expense		3,085,120		1,167,378
Taxes and licenses		2,442,280		995,142
Rent expense		1,625,974		2,964,027
Freight charges		1,363,829		3,580,373
SSS, PHIC, and HDMF contribution		1,083,460		1,258,992
Legal and professional fees		970,896		670,816
Depreciation		852,561		953,826
Insurance		811,604		976,393
Other services		808,128		608,400
Medical subsidy		788,278		936,955
Meal allowance		431,759		533,987
Office expense		387,072		267,902
Car rentals paid to leasing co.'s		334,000		-
Listing fee		241,981		183,746
Bank charges		150,698		23,653
Miscellaneous expense		139,377		108,967
Rebates		-		629,502
Research and development		-		381,199
Provision for doubtful accounts		-		8,449,355
Loss on expiration of deferred charges		-		54,950
<b>Total</b>	<b>P</b>	<b>135,908,507</b>	<b>P</b>	<b>93,396,653</b>

### 14. Financial Risk Management Objectives and Policies

The Company has exposure to the following risks from its use of financial instruments:

- (a) Credit risk,
- (b) Liquidity risk, and
- (c) Foreign currency risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the

Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### *Financial risk management objectives and policies*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company.

Risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The policies for managing specific risks are summarized below:

#### *Credit risk*

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, when appropriate, as a means of mitigating the risk of financial loss from defaults.

		2017		2016
Cash	P	14,827,095	P	5,992,970
Trade and other receivables		27,148,265		39,935,628
<b>Total Credit Risk Exposure</b>	<b>P</b>	<b>41,975,360</b>	<b>P</b>	<b>45,928,598</b>

The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies when available and if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company maintains adequate highly liquid assets in the form of cash and cash equivalents to assure necessary liquidity.

Despite low liquidity, the Company can expect immediate capital infusion from shareholders in order to meet the obligations to the creditors.

The tables below summarize the maturity profile of the Company's financial liabilities as at March 31, 2017 and 2016 based on contractual undiscounted payments.

2017		Less than 1 year		Between 1 - 10 years		Total
Trade and other payables	P	34,716,818	P	-	P	34,716,818
Loan payable		-		155,734,260		155,734,260
<b>Total</b>	<b>P</b>	<b>34,716,818</b>	<b>P</b>	<b>155,734,260</b>	<b>P</b>	<b>190,451,078</b>

2016		Less than 1 year		Between 1 - 10 years		Total
Trade and other payables	P	33,103,272	P	-	P	33,103,272
Loan payable		-		117,206,394		117,206,394
<b>Total</b>	<b>P</b>	<b>33,103,272</b>	<b>P</b>	<b>117,206,394</b>	<b>P</b>	<b>150,309,667</b>

## 15. Capital Risk Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current liabilities' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

As of March 31, 2017 and 2016, the Company's ratios of debt to total capital are as follows:

		2017		2016
Total borrowings	P	190,451,078	P	152,320,113
Less: Cash		14,827,095		5,992,970
Net debt		175,623,984		146,327,144
Total equity		(127,515,880)		(60,295,549)
Total capital	P	48,108,103	P	86,031,595
<b>Gearing ratio</b>		<b>3.65</b>		<b>1.70</b>

The higher a company's degree of leverage, the more the company is considered risky. As for most ratios, an acceptable level is determined by its comparison to ratios of companies in the same industry. A company with high gearing (high leverage) is more vulnerable to downturns in the business cycle because the company must continue to service its debt regardless of how bad sales are. A greater proportion of equity provides a cushion and is seen as a measure of financial strength.

## 16. Financial Instrument

### *Fair value information and categories of financial instruments*

The tables below represent comparison by category and class of carrying amounts and fair values of the Company's financial instruments as at March 31, 2017 and 2016:

		Carrying values		Fair values	
		2017	2016	2017	2016
<b>Financial assets</b>					
Cash	P	14,827,095	P 5,992,970	P 14,827,095	P 5,992,970
Trade and other receivables		27,148,265	39,935,628	27,148,265	39,935,628
<b>Total</b>	<b>P</b>	<b>41,975,360</b>	<b>P 45,928,598</b>	<b>P 41,975,360</b>	<b>P 45,928,598</b>

		Carrying values		Fair values	
		2017	2016	2017	2016
<b>Financial liabilities</b>					
Trade and other payables	P	34,716,818	P 33,103,272	P 34,716,818	P 33,103,272
Loans payable		155,734,260	117,206,394	155,734,260	117,206,394
<b>Total</b>	<b>P</b>	<b>190,451,078</b>	<b>P 150,309,666</b>	<b>P 190,451,078</b>	<b>P 150,309,666</b>

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

*Cash, trade and other receivables, other current assets, trade and loans payable.*

The carrying of the above mentioned accounts approximate their fair values due to the short-term nature of these accounts.

## 17. Income Taxation

In compliance with the Tax Reform Act of 1997, the Company shall pay the Minimum Corporate Income Tax (MCIT) or the normal income tax, whichever is higher. The same Act also provides for the introduction of a Net Operating Loss Carry Over (NOLCO) privilege which can be carried over for the three succeeding taxable years immediately following the year of such loss. Pursuant to Section 27(E) of the National Internal Revenue Code (NIRC) of the Philippines, MCIT of two percent (2%) of the gross income is imposed on domestic corporations beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations. The MCIT shall be imposed whenever such corporation has zero or negative taxable income or whenever the amount of the MCIT is greater than the normal income tax due of such corporation (computed with the benefit of NOLCO, if any). Any excess of the MCIT over the normal income tax shall be carried forward on an annual basis and credited against normal income tax for the three immediately succeeding taxable years. A corporation cannot enjoy the benefit of NOLCO for as long as it is subject to MCIT in any taxable year. Provided, however, that the running of the three-year period for the expiry of NOLCO is not interrupted by the fact that such corporation is subject to MCIT in any taxable year during such three-year period.

### *Provision for income tax*

The reconciliation between the provision for income tax computed at the statutory income tax rate and the effective provision for income tax reflected in the statement of comprehensive income for the years ended March 31 follows:

		2017		2016
Accounting loss	P	(124,367,820)	P	(63,451,786)
Provision for income tax at statutory rate		(37,310,346)		(19,035,536)
Additions (reductions) in income tax:				
Unrealized foreign exchange gain		(2,847)		(54,847)
Unrealized foreign exchange loss		5,869,561		-
Interest income (subject to final tax)		(26,087)		(10,257)
Interest expense		10,869		1,441,157
Non-deductible expenses		12,767,488		2,551,292
Non-deductible cost of sales				1,439,603
Provision for income tax benefit		(18,691,362)		(13,668,588)
Expiration of DTA NOLCO		6,697,114		6,167,862
<b>Total Income Tax Benefit</b>	<b>P</b>	<b>(11,994,248)</b>	<b>P</b>	<b>(7,500,726)</b>

### *Deferred tax asset*

As at March 31, 2017, the Company has temporary differences on net operating loss carryover (NOLCO) for which an amount of P33,317,903 was written off as management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. These are as follows:

Year of Incurrence	Year of Expiry	Amount Incurred	Additions	Written-off	Expired	Ending Balance
2014	2017	22,323,713	-	-	22,323,713	-
2015	2018	22,106,094	-	22,106,094	-	-
2016	2019	45,561,961	-	45,561,961	-	-
2017	2020	62,304,540	-	32,304,540	-	30,000,000
<b>Total</b>		<b>P 152,296,308</b>	<b>P -</b>	<b>P 99,972,595</b>	<b>P 22,323,713</b>	<b>P 30,000,000</b>

## **18. Supplementary Tax Information Under Revenue Regulation No. 19-2011**

### **a. Sales**

Details of the Company's net sales during for the fiscal year ended:

	March 31, 2017
Sales	P 82,223,351
Sales returns	(2,025,469)
Sales discount	(19,263,173)
<b>Net Sales</b>	<b>P 60,934,709</b>

b. Cost of Sales

Details of the Company's cost of sales for the fiscal year ended March 31, 2017 are presented on Note 12.

c. Non-Operating and Taxable Other Income

The Company NIL balance in non-operating and taxable other income for the fiscal year ended March 31, 2017 and 2016, respectively.

d. Itemized Deductions

Details of the Company's itemized deductions for the fiscal year ended:

		March 31, 2017
Operating expenses	P	135,908,507
Less: Non-deductible expenses		
Staff welfare		4,831,498
Other claims		7,735,016
Loss on asset write off		29,991,778
Interest expense		36,231
<b>Itemized Deductions</b>	<b>P</b>	<b>93,313,984</b>

e. Taxes and Licenses

The details of the Company's taxes and licenses for the fiscal year ended March 31, 2017 are presented in Note 19.

## 19. Compliance with Revenue Regulation 15-2010

The following are the supplementary information and disclosures required under Revenue Regulations 19-2011 for the year ended March 31, 2017.

### Value Added Tax (VAT)

The NIRC of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. RA No. 9337 increased the value added tax (VAT) rate from 10.0% to 12.0%, effective February 1, 2006.

a. Output Vat

		2017	
		Net Sales/Receipts	Output Vat
Taxable Sales			
Vatable Sales/Receipts	P	60,934,709	P 7,312,165
<b>Total</b>	<b>P</b>	<b>60,934,709</b>	<b>P 7,312,165</b>

b. Input Vat

		2017
Balance at April 1	P	398,506
Current transactions		
Importation of goods other than capital goods		2,636,540
Domestic purchases of services		2,421,067
Domestic purchases of goods		542,678
Other creditable VAT		2,868
Purchase of capital goods not exceeding 1M		59,005
Input tax on government sale closed to expense		(1,771)
Total		6,058,893
Claims for tax credit/refund and other adjustments		6,058,893
<b>Balance at March 31</b>	<b>P</b>	<b>-</b>

*Other Taxes and Licenses*

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees lodged under the 'Taxes and Licenses' account under 'Operating Expense' section in the Company's statement of comprehensive income.

		2017
<i>Lodged under operating expenses:</i>		
Product registration	P	1,668,390
Permits and licenses		517,376
Others		256,514
<b>Total</b>	<b>P</b>	<b>2,442,280</b>

*Withholding Taxes*

Details of withholding taxes for the year are as follows:

		2017
Withholding taxes on compensation and benefits	P	4,664,385
Expanded withholding taxes		309,304
<b>Total</b>	<b>P</b>	<b>4,973,689</b>

*Tax Assessment and Cases*

The Company has no pending tax assessment and/or tax cases as of the balance sheet date.

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**Leonardo Vicente & Associates**  
Certified Public Accountants

A Member Firm of CPA Associates International, Inc.

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Website: www.leonardovicente-cpa.com

## SUPPLEMENTAL WRITTEN STATEMENT

The Shareholders and the Board of Directors  
**ALKEM LABORATORIES CORPORATION**  
5/F, Filipino Bldg. 135 Dela Rosa Cor. Legaspi Cor  
Bolanos Sts. Legaspi Village,  
Makati City, Metro Manila

We have audited the financial statements of **ALKEM LABORATORIES CORPORATION** as of and for the year ended March 31, 2017, on which we have rendered the attached report dated April 28, 2017.

In compliance with Securities Regulation Code Rule 68, we are stating that the said Company has a total number of 1 shareholders owning one hundred (100) or more shares each.

### LEONARDO VICENTE & ASSOCIATES, CPAs

**EDGARDO A. LEONARDO**

Managing Partner

CPA Certificate No. 36606, issued 10/20/2015 valid through 10/03/2018

SEC Accreditation No. 1437-A, issued 07/31/2014 valid through 07/30/2017

BIR Accreditation No. 08-002616-1-2015, issued 02/18/2015 valid through 02/17/2018

Partner TIN 115-257-343-000

PTR No. 5912905, January 6, 2017, Makati City

Firm BOA Registration No. 1199, issued 10/29/2013 with extended validity until 04/30/2017,  
pursuant to Board Resolution No. 37, series of 2017

Firm SEC Accreditation No. 0301F, issued 11/25/2014 valid through 11/24/2017

Firm TIN 222-527-897-000

Makati City, Metro Manila  
April 28, 2017





**Leonardo Vicente & Associates**  
Certified Public Accountants

A Member Firm of CPA Associates International, Inc.

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## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULE

The Shareholders and the Board of Directors

**ALKEM LABORATORIES CORPORATION**

5/F, Filipino Bldg. 135 Dela Rosa Cor. Legaspi Cor  
Bolanos Sts. Legaspi Village,  
Makati City, Metro Manila

We have audited the financial statements of **ALKEM LABORATORIES CORPORATION** in accordance with Philippine Standards on Auditing as of and for the years ended March 31, 2017 and 2016 and have issued our report thereon dated April 28, 2017. Our audit was conducted for the purpose of forming our opinion on the basic financial statements taken as a whole. The accompanying Schedule of all Effective Standards and Interpretations is presented for the purpose of complying with Securities Regulation Code Rule 68, Paragraph 4(J), As Amended (2011) and is not a required part of the basic financial statements. Such schedule is the responsibility of the Company's management. This schedule has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the schedule, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

**LEONARDO VICENTE & ASSOCIATES, CPAs**

**EDGARDO A. LEONARDO**

Managing Partner

CPA Certificate No. 36606, issued 10/20/2015 valid through 10/03/2018

SEC Accreditation No. 1437-A, issued 07/31/2014 valid through 07/30/2017

BIR Accreditation No. 08-002616-1-2015, issued 02/18/2015 valid through 02/17/2018

Partner TIN 115-257-343-000

PTR No. 5912905, January 6, 2017, Makati City

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Makati City, Metro Manila

April 28, 2017