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Report of Independent Auditors

The Board of Directors
Alkem Laboratories Corporation
(A Wholly Owned Subsidiary of
Alkem Laboratories Limited)
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, 2019 and 2018, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the years then ended, and the 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 the Company as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). 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) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, 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.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net loss of P75.0 million and P71.7 million from its operations in 2019 and 2018, respectively, that resulted in a capital deficiency of P24.9 million and P199.2 million as at March 31, 2019 and 2018, respectively. While this condition indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern entity, the Company expects it will generate net profit in the coming years. Also, the Company's Parent Company has expressed its commitment to provide continuing financial support to the Company for its operations until such time that the Company is in a stable financial position. In 2018, the Parent Company also converted its loans to the Company to deposit for future stock subscription which was subsequently converted to capital stock in 2019 to compensate for the Company's capital deficiency. In connection with our audit, we have performed audit procedures to evaluate management's plans and actions as to likelihood of improving the situation and as to feasibility under the circumstances. Accordingly, the Company's financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended March 31, 2019 required by the Bureau of Internal Revenue as disclosed in Note 20 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Mailene Sigue-Bisnar**
Partner

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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 17, 2019

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Financial Position
As of March 31, 2019 and 2018
(Amounts in Philippine Pesos)

	Notes	**2019**	2018
ASSETS			
Current Assets			
Cash	*4*	**P 9,616,148**	P 13,436,117
Trade and other receivables – net	*5*	**38,351,947**	48,534,658
Inventories – net	*6*	**24,309,053**	23,959,552
Prepayments and other current assets	*7*	**2,388,762**	498,564
Total current assets		**74,665,910**	86,428,891
Non-current Assets			
Property and equipment – net	*8*	**142,996**	405,158
Deferred tax assets - net	*18*	**4,842,775**	1,346,156
Total non-current assets		**4,985,771**	1,751,314
Total Assets		**P 79,651,681**	P 88,180,205
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Trade and other payables	*9*	**P 104,018,375**	P 30,474,922
Deposit for future stock subscription	*10*	**-**	256,835,000
Income tax payable		**516,919**	51,489
Total liabilities		**104,535,294**	287,361,411
Capital Deficiency			
Share capital	*11*	**356,762,200**	99,927,200
Deficit		**(381,645,813)**	(299,108,406)
Capital deficiency		**(24,883,613)**	(199,181,206)
Total Liabilities and Capital Deficiency		**P 79,651,681**	P 88,180,205

See Notes to Financial Statements.

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Comprehensive Income
For the Fiscal Years Ended March 31, 2019 and 2018
(Amounts in Philippine Pesos)

	Notes	**2019**	2018
Net Sales		**P 112,353,939**	P 98,920,714
Cost of Sales	*12*	**37,629,737**	37,576,929
Gross Income		**74,724,202**	61,343,785
Other Income (Expense)			
Interest expense	*10*	**(16,146,451)**	(16,607,215)
Foreign exchange loss – net		**(1,851,693)**	(9,362,922)
Recovery of expected credit losses	*5*	**6,145,450**	-
Recovery of accounts written off			166,561
Interest income	*4*	**24,960**	103,174
		(11,827,734)	(25,700,402)
Other Operating Expenses	*13*	**(136,605,373)**	(98,404,023)
Loss Before Income Tax		**(73,708,905)**	(62,760,640)
Income Tax Expense	*18*		
Current		**1,556,423**	1,230,207
Final		**4,992**	20,635
Deferred		**(267,507)**	7,653,844
Income tax expense		**1,293,908**	8,904,686
Net Loss for the Year		**(75,002,813)**	(71,665,326)
Other Comprehensive Income		-	-
Total Comprehensive Loss for the Year		**P (75,002,813)**	P (71,665,326)

See Notes to Financial Statements.

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Changes in Capital Deficiency
For the Fiscal Years Ended March 31, 2019 and 2018
(Amounts in Philippines Pesos)

	Notes		**Share Capital**		**Deficit**		**Total**
Balance at April 1, 2018							
As previously reported		P	99,927,200	P	(299,108,406)	P	(199,181,206)
Effect of adoption of PFRS 9 and 15	*2*		-		(7,534,594)		(7,534,594)
As restated			99,927,200		(306,643,000)		(206,715,800)
Issuance of shares	*11*		256,835,000		-		256,835,000
Total comprehensive loss for the year			-		(75,002,813)		(75,002,813)
Balance at March 31, 2019	*11*	**P**	**356,762,200**	**P**	**(381,645,813)**	**P**	**(24,883,613)**
Balance at April 1, 2017		P	99,927,200	P	(227,443,080)	P	(127,515,880)
Total comprehensive loss for the year			-		(71,665,326)		(71,665,326)
Balance at March 31, 2018	*11*	P	99,927,200	P	(299,108,406)	P	(199,181,206)

See Notes to Financial Statements.

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Cash Flows
For the Fiscal Years Ended March 31, 2019 and 2018
(Amounts in Philippine Pesos)

	Notes	**2019**	2018
Cash Flows from Operating Activities			
Loss before income tax		**P (73,708,905)**	P (62,760,640)
Adjustments for:			
Unrealized foreign exchange loss - net		**1,844,696**	6,094,736
Depreciation and amortization	*8*	**262,162**	362,194
Operating loss before working capital changes		**(71,602,047)**	(56,303,710)
Decrease (increase) in trade and other receivables		**2,071,869**	(21,386,394)
Increase in inventories		**(349,501)**	(13,169,430)
Increase in prepayments and other current assets		**(1,355,241)**	(1,160,009)
Increase (decrease) in trade and other payables		**67,419,943**	(5,640,282)
Cash used in operations		**(3,814,977)**	(97,659,825)
Cash paid for final taxes		**(4,992)**	(20,635)
Net cash used in operating activities		**(3,819,969)**	(97,680,460)
Cash Flows from an Investing Activity			
Acquisition of property and equipment	*8*	**-**	(114,908)
Cash Flows from a Financing Activity			
Proceeds from loans payable	*10*	**-**	96,404,390
Net Decrease in Cash		**(3,819,969)**	(1,390,978)
Cash at Beginning of Year		**13,436,117**	14,827,095
Cash at End of Year		**P 9,616,148**	P 13,436,117

Supplemental Information on Non-cash Financing Activities:

1. In 2018, the Parent Company converted its outstanding loans payable to the Company amounting to P256.8 million to deposit for future stock subscription (see Note 10).

2. In 2019, the Company applied the existing deposit for future stock subscription amounting to P256.8 million for the issuance of additional shares of stock (see Note 11).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED MARCH 31, 2019 AND 2018
(Amounts in Philippines Pesos)

1. General Information

Corporate 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 manufacturing, buying, wholesale selling, importing, exporting of and/or dealings in pharmaceuticals, drugs, cosmetics, chemicals, food products, oils, powder, veterinary and surgical equipment, medical preparations; to carry on the business of distributors of pharmaceuticals 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 Company; 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 Company be conveniently manufactured or dealt in with any of the foregoing business.

The Company is a wholly owned subsidiary of Alkem Laboratories Limited (the Parent Company or Alkem LTD), a company incorporated and domiciled in India. The Parent Company is engaged in the development, manufacture and sale of pharmaceutical and neutraceutical products.

The registered office address of the Company, which is also its principal place of business, is located at 5/F Filipino Bldg. 135 Dela Rosa Cor. Legaspi Cor. Bolanos Sts., Legaspi Village, Makati City, Metro Manila while the registered office address of the Parent Company is located at Alkem House, Senapati Bapat Marg, Lower Parel, Mumbai, India.

Status of Operations
The Company has incurred a net loss of P75.0 million and P71.7 million from its operations for the years ended March 31, 2019 and 2018, respectively, that resulted in a capital deficiency of P24.9 million and P199.2 million as at March 31, 2019 and 2018, respectively. While this condition indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern entity, management continues to exert efforts to improve profitability. Management is confident that the business prospects for the Company in the succeeding years will be more favorable. In 2018, the Parent Company converted its outstanding loans to the Company amounting to P256.8 million to deposit for future stock subscription. Subsequently, the deposit for future stock subscription was converted to capital stock in 2019 (see Notes 10 and 11). As part of its corporate strategy, the Parent Company has committed to provide continuing financial support to the Company until such time that the Company will be in a stable financial condition. Accordingly, the Company's financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

Authorization for Issuance of the Financial Statements
The accompanying financial statements were approved by the Company's Board of Directors (BOD) and authorized for issue on May 17, 2019.

2. Summary of Significant Accounting Policies

Statement of Compliance with Philippine Financial Reporting Standards
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The Company has qualified as a Small and Medium-sized Entity (SME) based on the criteria provided by the SEC. Entities qualifying as SMEs are required to use the PFRS for SMEs as their reporting framework. However, as allowed under the exemptions granted by the SEC, the Company has opted to use PFRS in the preparation of its financial statements on the basis that it is a part of a group that is reporting under International Financial Reporting Standards (see Note 1).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income, expenses and other comprehensive income in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In the fiscal year ended March 31, 2019, the Company adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Company not to restate its prior period's financial statement. Differences arising from the adoption of PFRS 9 in relation to impairment of financial assets are recognized in the opening balance of Deficit in the current year.

Further, the Company adopted PFRS 15, *Revenue from Contracts with Customers*, which was applied using the modified retrospective approach under which changes having a material retrospective restatements on certain accounts in the statement of financial position as at April 1, 2018 are presented together as a single adjustments to the opening balance of Deficit.

Accordingly, the adoption of these two new accounting standards did not require the Company to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 and 15 to the Company's capital deficiency as of April 1, 2018:

	Effects on			
		Deficit		Capital Deficiency
Balance at April 1, 2018	P	(299,108,406)	P	(199,181,206)
Impact of PFRS 9				
Increase in allowance for credit losses for trade and other receivables		(8,110,842)		(8,110,842)
Deferred tax asset		2,433,253		2,433,253
		(5,677,589)		(5,677,589)
Impact of PFRS 15				
Recognition of refund liability		(4,278,815)		(4,278,815)
Recognition of right of return asset		1,625,950		1,625,950
Deferred tax asset		795,860		795,860
		(1,857,005)		(1,857,005)
	P	**(306,643,000)**	**P**	**(206,715,800)**

Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

Adoption of New and Amended PFRS

Effective in Fiscal Year 2019 that are Relevant to the Company

The Company adopted for the first time the following PFRS and interpretations to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Discussed below are the relevant information about these standards and interpretations.

- PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013 versions. This standard contains, among others, the following:

  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments; i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

  - an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVTPL which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

  The impact of the adoption of this new accounting standard to the Company's financial statements is the application of the ECL methodology based on the impairment assessment for trade and other receivables which resulted in the recognition of additional allowance for credit losses for trade and other receivables amounting to P8.1 million as of April 1, 2018.

  The adoption of PFRS 9 has no impact on the classification and measurement of financial assets and financial liabilities as these are continued to be classified and measured at amortized cost.

  The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in the succeeding notes under Financial Assets and Financial Liabilities section while the related disclosure in credit risk is presented in Note 15.

- PFRS 15, *Revenue from Contracts with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

  The Company's adoption of PFRS 15 has resulted in changes in its accounting policies and adjustments to the amounts recognized in the Company's financial statements. The Company has applied the new standard in accordance to the transitional relief as allowed by the new standard, with the cumulative effect of initial application recognized as an adjustment to the opening balance of Deficit account at April 1, 2018.

The Company is giving its customers a right to return the goods within a given period. When the customer exercises its right to return, the Company is obliged to refund the related purchase price. Using the historical information of the Company's sales return, the Company was able to estimate a refund liability amounting to P4.3 million in 2018 which was adjusted to Deficit account as of April 1, 2018 (representing sales in 2018). Also, the Company recognized a right of return asset amounting to P1.6 million on the goods to be recovered from the customers who will most likely exercise their right with a corresponding adjustment to Deficit accounts as of April 1, 2018 (representing cost of sales in 2018). The refund liability and right of return asset is presented as part of Trade and Other Payables, and Prepayments and Other Current Assets accounts in the statements of financial position.

The Company is giving its customers sales discounts as form of sales promotion and incentive. The Company assessed that its sales discounts offered to customers do not have any significant impact on the Company's financial statements since management is in a position that it provides adequate allowance for sales discounts and expects that no sales discounts will be availed in the future periods pertaining to current and prior year sales.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no material impact on the Company's financial statements.

Effective in Fiscal Year 2019 that are not Relevant to the Company

The following amendments to existing standards and annual improvements are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoptions of Philippines Financial Reporting Standards – Deletion of Short-term Exemptions
PAS 28 (Amendments)	:	Investments in Associates – Clarification On Fair Value Through Profit or Loss Classification

Effective Subsequent to Fiscal Year 2019 but not Adopted Early

There are new PFRS, interpretations, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements.

- PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

- PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely payments of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

- PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

  For lessors, lease accounting is similar to PAS 17 approach. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially similar to PAS 17. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

  The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Deficit account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Company's financial statements.

- IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its financial statements.

- Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends* is relevant to the Company. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

<u>Financial Assets</u>
Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at FVOCI, and financial assets at FVTPL. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. All of the Company's financial assets are currently categorized as financial assets at amortized cost.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All of the Company's financial assets meet these criteria and are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost is presented as Cash, Trade and Other Receivables (excluding advances to employees) and Security deposits (under Prepayments and Other Current Assets account) in the 2019 statement of financial position. Cash comprises cash on hand and demand deposits maintained in local banks that is unrestricted, readily available for use in the Company's operations and generally earning interest based on daily bank deposit rates.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income as part of Other Income.

The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Company is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

All of the Company's financial assets are currently categorized as 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 arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Company's financial assets categorized as loans and receivables are presented as Cash, Trade and Other Receivables (excluding advances to employees) and Security deposits (under Prepayments and Other Current Assets account) in the 2018 statement of financial position. Cash are defined as cash on hand and demand deposits which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' 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 or current effective interest rate determined under the contract if the loan has a variable interest rate.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

Impairment of Financial Assets under PFRS 9

From April 1, 2018, the Company assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

As allowed under PFRS 9 for financial asset with no significant financing component, the Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for financial assets at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the expected credit losses, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using flow rates method.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – is an estimate of likelihood of default over a given time horizon.

- *Loss given default* – is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive.

- *Exposure at default* – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

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

Impairment of Financial Assets under PAS 39

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

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 previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

<u>Inventories</u>
Inventories are valued at the lower of cost and net realizable value.

Cost, which includes all costs directly attributable to acquisition such as purchase price and freight-in, is determined using the weighted average method.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization and accumulated impairment loss, if any. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Furniture and fixtures	3 years
Computer and software	3 years
Office equipment	3 years

Leasehold improvements are amortized over their estimated useful life of three years or the lease term, whichever is shorter.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed and adjusted if appropriate, at the end of each reporting period. If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation and amortization of that asset is revised prospectively to reflect the new expectations.

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.

An item of property and equipment, including the related accumulated depreciation, amortization and impairment losses, if any, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

Prepayments and Other Assets
Prepayments and other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

Financial Liabilities
The Company's financial liabilities, which include trade and other payables (excluding tax-related liabilities) are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in the statement of comprehensive income.

Trade and other payables are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. For refund liabilities, the Company uses the probability-weighted average amount approach similar to the expected value method under PFRS 15.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in the statement of comprehensive income.

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 that are directly 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 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.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Impairment of Non-financial Assets

The Company's property and equipment and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in the statement of comprehensive income for the amount by which the asset's carrying amount or cash-generating units exceeds its recoverable amount. The recoverable amount is the higher of fair value based on an internal evaluation of discounted cash flow reflecting market conditions less cost to sell, and value in use. In determining the value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancement. Discount factors are determined individually for each cash-generating unit and reflect management's assessment for respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

Revenue Recognition
Revenue of the Company arises mainly from the sale of pharmaceutical products.

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

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer.

The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

Sales of goods

Revenue from sale of goods is recognized as the control transfers at the point in time with the customer. Invoices for goods transferred are due upon receipt by the customer.

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 Taxes
Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or current tax liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities is measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, provided such tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The carrying amount of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or deferred tax liabilities that relate to items recognized in other comprehensive income or directly to equity are recognized in other comprehensive income or directly to equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

<u>Leases – Company as Lessee</u>
Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

<u>Employee Benefits</u>

Post-employment benefits

Under Republic Act (RA) No. 7641 (known as the Retirement Pay 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 1/2 month salary for every year of service, fraction of at least 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.

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.

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.

Related Party Transactions and Relationships

Related party transactions are transfer of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

Deposit for Future Stock Subscription

Deposit for future stock subscription refers to the amount of money or property received by the Company with the purpose of applying the same as payment for future issuance of stock which may or may not materialize.

Under Financial Reporting Bulletin No. 6 (Revised) issued by the SEC for the treatment of the Deposit for future stock subscription. As stated, a company should not consider a deposit for stock subscription as an equity instrument unless all of the following elements are present:

(a) Lack or insufficiency of authorized unissued shares of stock to cover for the deposit;

(b) Approval by the BOD and stockholders for the increase in authorized capital stock to cover the shares corresponding to the amount of the deposit; and,

(c) Application for the approval of the increase in authorized capital stock has been presented for filing or filed with the SEC.

If any of the foregoing criteria is not met at the end of the reporting period, the deposit for future stock subscription is recognized as a liability. The amount of deposit for future stock subscription will be reclassified to equity accounts when the Company meets the foregoing criteria.

Capital Deficiency

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

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

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.

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:

Determination of Timing of Satisfaction of Performance Obligations (2019)

The Company determines that its revenue from sale of pharmaceutical products shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

Determination of Transaction Price (2019)

The transaction price for a contract is allocated amongst the material right and other performance obligations identified in the contract based on their stand-alone selling prices, which are all observable. The transaction price for a contract excludes any amounts collected on behalf of third parties [e.g., value-added taxes (VAT)].

The transaction price is considered receivable to the extent of products sold with a right of return.

Determination of ECL on Trade and Other Receivables and Security Deposits (2019)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 15.

Distinction Between 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. Based on management's judgement, such lease is considered as an operating lease.

Recognition of Provision and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 14.

Key Sources of Estimation Uncertainty
The discussion below and in the succeeding page 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.

Estimation of Allowance for ECL (2019)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 15.

Estimation of Amounts Involving Sales Discounts and Right of Return (2019)

The Company's contract of sale has variable consideration which is the right of return given to the customers within a specified period. Given the large number of contracts of the same characteristics, the Company considered the expected value method under the provisions of PFRS 15 which better predicts the amounts of consideration it will be required to return and receive involving the customer's right of return.

The Company recognizes provision for refund and refund liability, and the related right of return asset in relation to right of return given to customers. Provision for refund and refund liability is estimated based on historical information of the Company's sales returns.

Provision for refund is offset against revenue while the carrying amount of refund liability is presented as part of Trade and Other Payables account in the statement of financial position. On the other hand, the related cost from the establishment of the provision for refund is offset against cost of sales while the carrying amount of the right of return asset is presented as part of Prepayments and Other Current Assets account in the statement of financial position (see Note 7).

The Company's contract of sale has a variable consideration which is the sales discounts given to customers. Given the large number of contracts of the same characteristics, the Company considered the expected value method under provisions of PFRS 15 which better predicts the amounts of consideration it will be required to determine the transaction price and amount allocated to sales discounts.

Management has deemed that it has provided adequate allowance for sales discounts during the year and has determined that it will not have significant impact on the Company's financial statements since it does not expect any sales discounts in the future periods pertaining to current and prior year sales.

Impairment of Trade and Other Receivables and Security Deposits (2018)

Adequate amount of allowance for impairment is made for specific and groups 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 its distributors, their current credit status based on known market forces, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 5 while the carrying value of security deposits is presented in Note 7.

Determination of Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account past experience and other factors affecting the net realizable value of inventory items (i.e. price changes in the pharmaceutical industry, product expiration, etc.). Future realization of the carrying amounts of inventories as presented in Note 6 is evaluated on a continuous basis throughout the year. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next reporting period.

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, 2019 and 2018, there is no change in estimated useful lives of property and equipment during the years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The amounts of recognized DTA as of March 31, 2019 and 2018 are presented in Note 18.

Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses are necessary to be recognized as of March 31, 2019 and 2018 on the Company's property and equipment, and other non-financial assets based on the management's assessment.

Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period as. As of March 31, 2019, the Company has recognized a provision for post-employment benefit obligation amounting to P0.9 million. However, the amount of accrual was not actuarially determined. Based on management's assessment, the amount of accrual does not materially differ had it been determined by an actuary. Nonetheless, the Company is considering to engage an actuary in the next fiscal year. The amount of post-employment benefit obligation is presented as Retirement benefit obligation under Trade and Other Payables account in the statement of financial position (see Note 9). The related expense is presented as Retirement benefit expense under Other Operating Expenses account in the statement of comprehensive income (see Note 13).

4. Cash

This account consists of cash in bank in the amount of P9,616,148 and P13,436,117 as of March 31, 2019 and 2018, respectively.

Cash in banks earn interest at the respective bank deposit rates. The cash in bank of the Company as of March 31, 2019 and 2018 are not legally restricted as to withdrawal.

Interest income earned from cash and cash equivalents amounted to P24,960 and P103,174 for the years ended March 31, 2019 and 2018, respectively.

5. Trade and Other Receivables - Net

This account consists of:

		2019		2018
Trade receivables	**P**	**40,804,064**	P	48,474,439
Other receivables		**3,559,085**		4,106,029
		44,363,149		52,580,468
Allowance for doubtful accounts		**(6,011,202)**		(4,045,810)
Total	**P**	**38,351,947**	P	48,534,658

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

A reconciliation of the allowance for impairment at the beginning and end of 2019 is shown below.

		2019		2018
Balance at beginning of the year				
As previously reported	P	**4,045,810**	P	-
Effect of adoption of PFRS 9		**8,110,842**		-
As restated		**12,156,652**		-
Recovery during the year		**(6,145,450)**		
Bad debts expense		**-**		4,045,810
Balance at end of the year	**P**	**6,011,202**	P	4,045,810

Other receivables pertain to advances given to the Company's employees that are subject for liquidation within a year. These advances are noninterest-bearing and are used for operating and marketing expenses

Other receivables account is composed of:

		2019		2018
Employee advances – Marketing	**P**	**3,148,489**	P	-
Employee advances – OPEX		**410,596**		4,106,029
Total	**P**	**3,559,085**	P	4,106,029

All of the Company's receivables have been reviewed for impairment. Certain trade and other receivables were found to be impaired; hence, adequate amount of allowance for impairment have been recognized. The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. The Company recognized an allowance for ECL amounting to P4.0 million in 2018 which is presented as Bad debt expense under Other Operating Expenses account in the 2018 statement of comprehensive income (see Note 13). In 2019, the Company assessed that previously impaired trade and other receivables are recoverable; hence, the related allowance for impairment amounting to P6.1 million were reversed. The gain on reversal is presented as Recovery of Expected Credit Losses account under Other Income (Expenses) section of the 2019 statement of comprehensive income.

The Company also wrote-off advances to its employees amounting to P1.3 million which is presented as Bad debt expense under Other Operating Expenses account in the statements of comprehensive income (see Note 13).

6. Inventories

The details of inventories as at March 31 are as follows:

		2019		2018
Inventories:				
At cost	**P**	**24,309,053**	P	23,959,552
At net realizable value				
Cost		**2,744,553**		441,375
Allowance for impairment		**(2,744,553)**		(441,375)
Total	**P**	**24,309,053**	P	23,959,552

Movements in allowance for impairment consist of:

		2019		2018
Balance at beginning of year	**P**	**441,375**	P	-
Allowance for inventory write-down		**2,303,178**		441,375
Balance at end of year	**P**	**2,744,553**	P	441,375

In 2019 and 2018, the Company recognized an additional allowance on inventory write-down amounting to P2.3 million and P0.4 million, respectively. The Company has also directly written-off damaged and expired inventories in 2018 amounting to P1.5 million which are presented as part of Loss on inventory write-down under Other Operating Expenses in the statements of comprehensive income (see Note 13).

The shelf life of the pharmaceutical drug products is generally between 24 months to 36 months. The provision for impairment is recognized mainly to provide reserves for slow moving, near expiry, phased-out and damaged stocks mostly coming from trade returns.

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

7. Prepayments and Other Current Assets

This account consists:

	Notes		**2019**		2018
Security deposits	14	**P**	**206,531**	P	460,029
Right of return asset			**2,182,231**		-
Input VAT	20		**-**		38,535
Total		**P**	**2,388,762**	P	498,564

8. Property and Equipment

As of March 31, 2019

		Leasehold Improvements		Furniture and Fixtures		Computer and Software		Office Equipment		Total
Cost										
Balance, April 1, 2018	P	1,796,056	P	756,477	P	783,453	P	292,556	P	3,628,542
Additions		-		-		-		-		-
Balance, March 31, 2019		1,796,056		756,477		783,453		292,556		3,628,542
Accumulated Depreciation and Amortization										
Balance, April 1, 2018		1,796,056		606,079		654,730		166,519		3,223,384
Depreciation and amortization		-		103,969		67,932		90,261		262,162
Balance, March 31, 2019		1,796,056		710,048		722,662		256,780		3,485,546
Carrying Amounts										
March 31, 2018		-		150,398		128,723		126,037		405,158
March 31, 2019	**P**	**-**	**P**	**46,429**	**P**	**60,791**	**P**	**35,776**	**P**	**142,996**

As of March 31, 2018

		Leasehold Improvements		Furniture and Fixtures		Computer and Software		Office Equipment		Total
Cost										
Balance, April 1, 2017	P	1,796,056	P	756,477	P	746,492	P	214,609	P	3,513,634
Additions		-		-		36,961		77,947		114,908
Balance, March 31, 2018		1,796,056		756,477		783,453		292,556		3,628,542
Accumulated Depreciation and Amortization										
Balance, April 1, 2017		1,796,056		462,147		528,816		74,171		2,861,190
Depreciation and amortization		-		143,932		125,914		92,348		362,194
Balance, March 31, 2018		1,796,056		606,079		654,730		166,519		3,223,384
Carrying Amounts										
March 31, 2017		-		294,330		217,676		140,438		652,444
March 31, 2018	P	-	P	150,398	P	128,723	P	126,037	P	405,158

Management believes that there is no indication of impairment on the carrying value of its property and equipment as of March 31, 2019 and 2018. Likewise, the Company has no contractual commitments for the acquisition of property and equipment.

9. Trade and Other Payables

This account consists of:

	Note		**2019**		2018
Accounts payable	10	**P**	**61,657,868**	P	21,736,026
Accrued expenses	10		**30,103,378**		7,554,913
Refund liability			**6,819,472**		-
Taxes payable			**4,086,036**		367,705
Retirement benefit obligation	3		**904,890**		-
Salaries payable			**228,785**		632,733
SSS/PHIC/HDMF payable			**217,946**		183,545
Total		**P**	**104,018,375**	P	30,474,922

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

Salaries payable represents payables to employees for unutilized leaves.

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

10. Related Party Transactions

The Company's related parties include its parent company, its key management, and others as described below and in the succeeding page.

	2019		2018	
	Amount of Transaction	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Company				
Deposit for future stock subscription	**P (256,835,000)**	**P -**	P 256,835,000	P 256,835,000
Loans payable	**-**	**-**	101,100,740	-
Interest	**16,146,451**	**21,281,541**	16,607,215	5,162,023
Purchases	**30,301,539**	**49,433,346**	39,797,194	17,617,657
Key Management Personnel				
Compensation	**15,628,330**	**-**	14,132,540	-

The long term loans payable from the Parent Company, amounting to USD5.0 million, bears a certain interest rate as agreed by the Group which is based on arms-length transaction and used to sustain working capital requirements of the Company. This amount is unsecured and has no fixed repayment terms. Interest from these loans amounting to P16.1 million and P16.6 million in 2019 and 2018, respectively, are presented as Interest expense under Other Income (Expense) in the statements of comprehensive income. Outstanding interest payable amounting to P21.3 million and P5.2 million as of March 31, 2019 and 2018, respectively, are presented as part of Accrued expenses under Trade and Other Payables accounts in the statements of financial position (see Note 9).

The movements in the Loans Payable account are shown below:

		2018
Balance at beginning of year	P	155,734,260
Proceeds from loans		96,404,390
Unrealized foreign currency exchange losses		4,696,350
Conversion to deposit for future stock subscription		(256,835,000)
Balance at end of year	P	-

In February 2018, the BOD of the Company approved the conversion of its outstanding loans payable from the Parent Company amounting to P256.8 million to deposit for future stock subscription for future issuance of shares which is expected to be issued within 12 months from the end of the reporting period. In March 2019, the deposit for future stock subscription was converted to capital stock (see Note 11).

The Company also purchases from its Parent Company inventories sold to its distributors and product samples distributed to sales representatives as part of the Company's marketing and promotional activities. The related outstanding payable is presented as part of Accounts payable account under Trade and Other Payables account in the statement of financial position (see Note 9). Payables are generally unsecured, noninterest-bearing, and payable in cash on demand.

The details of the compensation of key management personnel are summarized below.

		2019		2018
Salaries and wages	**P**	**14,435,822**	P	13,096,940
Employee benefits		**1,192,508**		1,035,600
Total	**P**	**15,628,330**	P	14,132,540

11. Equity

Capital Stock

Details of capital stock with par value per share of P100 are as follows:

	Number of Share		Amount	
	2019	2018	**2019**	2018
Authorized and issued	**4,358,350**	1,790,000	**P 435,835,000**	P 179,000,000
Outstanding shares:				
Balance at the beginning of year	**999,272**	999,272	**P 99,927,200**	P 99,927,200
Issued during the year	**2,568,350**	-	**256,835,000**	-
Balance at end of year	**3,567,622**	999,272	**P 356,762,200**	P 99,927,200

On February 23, 2018, the Company' BOD and stockholders approved the increase in authorized capital stock from 1,790,000 shares to 4,358,350 shares, with the same par value of P100.00, and was approved by the SEC on February 11, 2019. In relation to the increase in authorized capital stock, the Company issued additional shares through conversion of the Company's deposit for future stock subscription amounting to P256.8 million in March 2019.

As of March 31, 2019 and 2018, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

12. Cost of Sales

This account consists of:

	Note		2019		2018
Inventory, beginning		P	**23,959,552**	P	10,790,122
Add: Purchases			**38,535,520**		50,746,359
Total goods available for sale			**62,495,072**		61,536,481
Less: Inventory, ending	6		**(24,309,053)**		(23,959,552)
Provision for right of return asset			**(556,282)**		-
Total Cost of Sales		P	**37,629,737**	P	37,576,929

13. Other Operating Expenses

This account consists of:

	Notes		2019		2018
Salaries and wages		P	**38,008,036**	P	37,919,495
Advertising			**24,867,072**		18,809,388
Other Discounts			**18,690,722**		-
Travel and transportation			**11,185,334**		15,898,459
Sales incentive			**9,032,696**		2,159,458
Fines and penalties			**6,579,167**		20,822
Rental	14		**3,731,570**		2,536,052
Freight out			**3,656,009**		2,985,754
Taxes and licenses	20		**3,200,513**		1,407,022
Utilities			**2,544,414**		2,576,043
Loss on inventory write-down	6		**2,303,178**		1,944,421
Training and seminars			**1,734,481**		1,751,243
Professional fees			**1,445,299**		2,245,480
Bad debt expense	5		**1,315,551**		4,045,810
Retirement benefit expense	3		**904,890**		-
Repairs and maintenance			**619,510**		662,787
Outside services			**540,817**		308,852
Depreciation	8		**262,162**		362,194
Bank charges			**120,118**		230,296
Miscellaneous			**5,863,834**		2,540,447
Total		P	**136,605,373**	P	98,404,023

14. Commitments and Contingencies

Operating Lease Commitment – the Company as Lessee

In 2016, the Company leased its office space for a period of three years. The Company renewed its lease agreement in 2019. The future minimum lease payments under these non-cancellable operating leases are as follows as at March 31:

		2019		2018
Within one year	P	**981,191**	P	792,269
More than one year		**353,811**		132,045
Total	P	**1,335,002**	P	924,314

The total rentals from these operating leases amounted to P1.5 million and P1.3 million for the years ended March 31, 2019 and 2018, respectively, and are presented as part of Rental expense under Other Operating Expenses account in the statements of comprehensive income (see Note 13).

Security deposits related to these lease commitments amounted to P0.2 million and P0.5 million as at March 31, 2019 and 2018, respectively, and is presented under Prepayments and Other Current Assets account in the statements of financial position (see Note 7).

Others

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements. Management believes that losses, if any, that may arise from these contingencies will not have any material effect on the financial statements.

15. Financial Risk Management Objectives and Policies

The Company is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are foreign currency risk, credit risk, liquidity risk and interest rate risk.

The Company's risk management is coordinated with its Parent Company, in close cooperation with the BOD, and focuses on securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The relevant financial risks to which the Company is exposed to are described below and in the succeeding page.

Foreign currency risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Foreign exchange risk arises from the Company's trade payables, loans payable and interest payable with its Parent Company (see Note 10).

The Company's financial liabilities subject to foreign currency risk are shown below:

	2019			2018		
	USD	**Closing Rate**	**PHP**	USD	Closing Rate	PHP
Trade payables	**936,557**	**52.8**	**49,433,346**	342,161	51.4	17,617,657
Interest payable	**403,197**	**52.8**	**21,281,541**	100,387	51.4	5,162,023
	1,339,754		**70,714,887**	442,548		22,779,680

There were no U.S. dollar-denominated financial assets as of March 31, 2019 and 2018.

As at March 31, 2019 and 2018, if the peso had strengthened by 11.20% and 11.86% against the U.S. dollar with all other variables held constant, loss before tax for the year would have been lower by P7.8 million and P2.7 million, respectively, mainly as a result of foreign exchange gain on translation of U.S. dollar-denominated financial liabilities.

On the other hand, if the peso had weakened by the same percentage, with all other variables held constant, loss before tax and would have been higher by the same amount in each of those years.

The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99.00% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period.

Exposures to foreign exchange rates vary during the year depending on the volume of transactions. Nonetheless, the analysis in the previous page is considered to be representative of the Company's foreign currency risk.

Credit risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from selling goods to customers and placing deposits with banks.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below:

		2019		2018
Cash	**P**	**9,616,148**	P	13,436,117
Trade and other receivables		**34,792,862**		44,428,629
Security deposits		**206,531**		460,029
Total	**P**	**44,615,541**	P	58,324,775

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risks controls. The Company's policy is to deal only with creditworthy counterparties.

The Company mainly sells and distributes its products through Getz Bros. (Phils.), Inc. (GBP) and Mercury Drug Corporation (MDC), under a distribution agreement. GBP and MDC is committed to pay for the pharmaceutical and medical products sold for the Company under an existing distribution agreement. The Company closely monitors receivables on an ongoing basis. Based on historical information about customer default rates, management consider the credit quality of trade receivables that are not past due or impaired to be good. As of March 31, 2019 and 2018, the Company's receivables are composed mainly of receivables from two major customers. This concentration in risk is mitigated by the good credit quality of the counterparties and the good relationship of the Company with these counterparties.

The expected loss rates are based on the payment profiles of revenues over a period of 36 months before March 31, 2019, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. However, no macroeconomic variables were identified to have a relevant effect on the loss rates of the Company. Additionally, the effects of forward-looking information on the loss rates, if any, are deemed negligible.

In respect of security deposits, the Company is not exposed to any significant credit risk since the lessor is financially stable and is in good financial condition. Based on historical information, management consider the credit quality of security deposits to be good.

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 the Parent Company 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, 2019 and 2018 based on contractual undiscounted payments.

2019		Less than 1 year		Between 1 - 10 years		Total
Trade and other payables	P	98,809,503	P	-	P	98,809,503
Total	**P**	**98,809,503**	**P**	**-**	**P**	**98,809,503**

2018		Less than 1 year		Between 1 - 1 0 years		Total
Trade and other payables	P	29,923,672	P	-	P	29,923,672
Total	P	29,923,672	P	-	P	29,923,672

Interest Rate Risk

The Company is exposed to an insignificant interest rate risk on its cash in bank as of March 31, 2019 and 2018 since these only pertain to bank deposits.

16. 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 'capital deficiency' as shown in the statement of financial position plus net debt.

As of March 31, 2019 and 2018, the Company's ratios of debt to total capital are as follows:

		2019		2018
Total debt	**P**	**104,535,294**	P	287,361,411
Less: Cash		**9,616,148**		13,436,117
Net debt		**94,919,146**		273,925,294
Total capital deficiency		**(24,883,613)**		(199,181,206)
Total capital	**P**	**70,035,533**	P	74,744,088
Debt to Equity		**1.36**		3.66

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.

Despite the Company's degree of leverage, the risk is considered manageable since all its loans are also made with the Parent Company.

17. Categories, Offsetting and Fair Value Disclosures of Financial Assets and Financial Liabilities

Fair value information and categories of financial instruments

The carrying amounts and fair values of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Carrying values		Fair values	
	2019	2018	**2019**	2018
Financial assets				
Cash	**P 9,616,148**	P 13,436,117	**P 9,616,148**	P 13,436,117
Trade and other receivables	**34,792,862**	44,428,629	**34,792,862**	44,428,629
Security deposits	**206,531**	460,029	**206,531**	460,029
Total	**P 44,615,541**	P 58,324,775	**P 44,615,541**	P 58,324,775
Financial liabilities				
Trade and other payables	**P 98,809,503**	P 29,923,672	**P 98,809,503**	P 29,923,672
Total	**P 98,809,503**	P 29,923,672	**P 98,809,503**	P 29,923,672

In accordance with PFRS 13, Fair Value Measurement, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company has no financial instruments and non-financial assets that are presented at fair value or that are not carried at fair value but are required to be disclosed or have been disclosed as at March 31, 2019 and 2018. For financial assets instruments measured at amortized cost, management's determined that their carrying amounts are equal to or approximate their fair values; accordingly, management opted not to further disclose any comparison. Likewise, it no longer presented the fair value hierarchy. Nevertheless, only cash would fall under Level 1 and the rest under Level 3 of the hierarchy.

Management considers that the carrying amounts of these financial assets and financial liabilities approximates their fair values as of March 31, 2019 and 2018 either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

See Note 2 for description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 15.

For the Company's financial assets and financial liabilities as of March 31, 2019 and 2018, management considers that the carrying amounts of these financial instruments are equal to or approximate their fair values; hence, no further comparison between the carrying amounts and fair values, as well as fair value hierarchy, is presented.

Offsetting of Financial Assets and Financial Liabilities
The Company has not set-off financial instruments in 2019 and 2018 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders or upon instruction by the Parent Company.

18. Income Taxation

Provision for income tax

The components of tax expense reported in profit or loss and in other comprehensive income are as follows:

		2019		2018
Current tax expense				
Minimum corporate income tax (MCIT) at 2%	**P**	**1,556,423**	P	1,230,207
Final tax at 20%		**4,992**		20,635
		1,561,415		1,250,842
Deferred tax expense (income)		**(267,507)**		7,653,844
Total Income Tax Expense	**P**	**1,293,908**	P	8,904,686

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:

		2019		2018
Pretax loss	**P**	**(73,708,905)**	P	(62,760,640)
Provision for income tax at statutory rate		**(22,112,672)**		(18,828,192)
Additions (reductions) in income tax:				
Non-deductible expenses		**15,135,911**		-
Non-deductible interest expense		**4,843,935**		4,982,165
Unrecognized DTA on net operating loss carryover (NOLCO)		**1,872,807**		10,702,403
Unrealized foreign exchange loss				1,828,421
Unrecognized DTA on MCIT		**1,556,423**		1,230,207
Adjustment for income subjected to lower tax rate		**(2,496)**		(10,318)
Provision for income tax benefit		**1,293,908**		(95,314)
Write-off of DTA on NOLCO		**-**		9,000,000
Total Income Tax Expense	**P**	**1,293,908**	P	8,904,686

Deferred tax asset

The deferred tax assets as of March 31 relate to the following:

	Statements of Financial Position				Statements of Comprehensive Income			
		2019		2018		**2019**		2018
Allowance for doubtful accounts	**P**	**1,803,361**	P	1,213,743	**P**	**(1,843,634)**	P	1,213,743
Allowance for inventory losses		**823,366**		132,413		**690,953**		132,413
Unrealized foreign exchange losses		**553,409**		-		**553,409**		-
Retirement benefit obligation		**271,467**		-		**271,467**		-
Refund liability		**2,045,842**		-		**762,197**		-
Right of return asset		**(654,670)**		-		**(166,885)**		-
NOLCO		**-**		-		**-**		(9,000,000)
Deferred tax assets – net	**P**	**4,842,775**	P	1,346,156				
Deferred tax income (expense) – net					**P**	**267,507**	P	(7,653,844)

Upon adoption of PFRS 9 and 15, the Company recognized additional deferred tax assets as at April 1, 2018 related to the adjustments made on the allowance for impairment and refund liability amounting to P2,433,253 and P1,283,645, respectively. Also, deferred tax liability was recognized in relation to the right of return asset amounting to P487,785 (see Note 2).

The details of NOLCO as of March 31, 2018 are as follows:

Year of Incurrence	Year of Expiry	Amount Incurred	Written-off	Expired	Ending Balance
2017	2020	62,304,540	32,304,540	-	30,000,000
2018	2021	35,674,678	-	-	35,674,678
2019	2022	6,242,692	-	-	6,242,692
Total		104,221,910	32,304,540	-	71,917,370

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations or regular corporate income tax (RCIT), whichever is higher. In 2019 and 2018, the Company reported MCIT as it is higher than the RCIT.

The MCIT incurred in 2019 and 2018 amounting to P1.6 million and P1.2 million, respectively, can be applied as deduction from the Company's future regular income tax due within three years until 2021 and 2022, respectively, from the year the MCIT was paid.

The Company did not recognize deferred tax assets amounting to P24.4 million and P20.9 million as of March 31, 2019 and 2018, respectively, relating to NOLCO and MCIT, as management has assessed that they may not be able to realize the related tax benefits within the prescribed availment period.

In 2019 and 2018, the Company opted to claim itemized deductions in computing for its income tax due.

19. Events after the Reporting Period

On February 20, 2019, Republic Act No. 112321, *An Act Providing for the Revised Corporation Code of the Philippines* (RCC) (effective March 8, 2019), was signed into law and published in the Official Gazette on February 21, 2019. The significant provision, among others, of the RCC that would have financial reporting impact to the Company, is the removal of the maximum 50-year corporate term for stock corporations. The RCC states that corporations shall now have perpetual existence unless their articles of incorporation provide otherwise. In addition, it clarifies that even corporations with certificates of incorporation issued prior to the effectivity of the RCC, and which continue to exist, shall have perpetual existence, unless the corporation, upon a vote of its stockholders representing majority of its outstanding capital stock, notifies SEC that it elects to retain its specific corporate term pursuant to its articles of incorporation. Provided, that any change in the corporate term under this section is without prejudice to the appraisal right of dissenting stockholders in accordance with the provisions of this RCC. Furthermore, the RCC removed the minimum capital stock requirement for stock corporations, except as otherwise specifically provided by special law.

20. Compliance with Revenue Regulation No. 15-2010

The following are the supplementary information and disclosures required under Revenue Regulations 15-2010 for the year ended March 31, 2019.

VAT

a. Output VAT

		Net Sales		Output VAT
Taxable Sales				
Vatable sales	P	114,894,597	P	13,787,351

b. Input VAT

Balance at April 1, 2018	P	38,535
Current transactions		
Importation of goods other than capital goods		4,817,306
Domestic purchases of services		2,060,129
Domestic purchases of goods		183,018
Other creditable VAT		1,498,234
Total		8,597,222
Applied against output VAT		(8,597,222)
Balance at March 31, 2019	**P**	**-**

Taxes on Importation

As of March 31, 2019, the total landed cost of the Company's imported inventory for use in business amounted to P32,951,925. This includes customs duties and tariff fees totaling P1,294,747.

Other Taxes and Licenses

This includes all other taxes, local and national, including real estate taxes, licenses and permit fees presented as Taxes and licenses under Other Operating Expense account in the Company's statement of comprehensive income (see Note 13).

Documentary stamp tax (DST)	P	2,568,350
Business tax		632,163
Total	**P**	**3,200,513**

The Company's DST transactions arise from the issuance of shares for the deposit for future subscription which were converted to equity upon approval of the SEC.

Excise Taxes

As of March 31, 2019, the Company did not have any transaction which is subject to excise tax.

Withholding Taxes

Details of withholding taxes for the year are as follows:

Withholding taxes on compensation and benefits	P	5,508,356
Expanded withholding taxes		497,975
Final withholding taxes		4,992
Total	**P**	**6,011,323**

Tax Assessment and Cases

In 2019, the Company paid deficiency taxes for various internal revenue taxes amounting to P6,123,228 relating to the taxable year 2018. There is an existing letter of authority for the audit of Value Added Taxes for the period April 2018 to September 2018.

21. Operating Segment

The Company is in the pharmaceutical business and has only a single reportable segment. Consequently, segment reporting disclosure requirements of PFRS 8 on Operating Segment is not applicable as the Company is not a listed entity nor is it in the process of filing its financial statements for the purpose of issuing any class of instruments in a public market. Moreover, the Company had two customers whose revenue individually represented 10% or more of the total revenue.

In 2019, the Company derives its revenue from sale of pharmaceuticals products to carry on the business of distributors of pharmaceuticals specialties and are recognized at a point in time.

Details of revenues from the Company's major customers for the year ended March 31 are as follows:

		2019		2018
Mercury Drug Corporation	**P**	**66,847,576**	P	44,437,082
Getz Brothers Philippines Inc		**44,018,788**		50,429,793
Total	**P**	**110,866,364**	P	94,866,875

Performance obligations related to these customers are satisfied at a point in time upon delivery of the goods.