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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, 2020 and 2019, 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, 2020 and 2019, 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 P9.4 million and P75.0 million from its operations in 2020 and 2019, respectively, that resulted in a capital deficiency of P34.3 million and P24.9 million as at March 31, 2020 and 2019, 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 March 2019, the Company increased its capital stock to compensate for the capital deficiency by converting the deposit for future stock subscription. 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.

### *Emphasis of a Matter*

We draw attention to Note 20 in the notes to financial statements which describes management's assessment of the impact of the business disruption as a result of the coronavirus outbreak to the Company's financial condition and performance after the end of the reporting period. Our opinion is not modified in respect to 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, 2020 required by the Bureau of Internal Revenue as disclosed in Note 22 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: John Endel S. Mata**
Partner

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PTR No. 8116549, January 2, 2020, Makati City
SEC Group A Accreditation
Partner - No. 121347-SEC (until Dec. 31, 2023)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

May 20, 2020

**ALKEM LABORATORIES CORPORATION**
***(A Wholly Owned Subsidiary of Alkem Laboratories Limited)***
Statements of Financial Position
As of March 31, 2020 and 2019
*(Amounts in Philippine Pesos)*

| | *Notes* | **2020** | 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *4* | **P 15,299,698** | P 9,616,148 |
| Trade and other receivables – net | *5* | **42,282,494** | 37,036,396 |
| Inventories – net | *6* | **21,117,618** | 24,309,053 |
| Prepayments and other current assets | *7* | **1,472,907** | 2,388,762 |
| Total current assets | | **80,172,717** | 73,350,359 |
| **Non-current Assets** | | | |
| Property and equipment – net | *8* | **373,039** | 142,996 |
| Deferred tax assets - net | *19* | **2,968,148** | 4,842,775 |
| Total non-current assets | | **3,341,187** | 4,985,771 |
| **Total Assets** | | **P 83,513,904** | P 78,336,130 |

**LIABILITIES AND CAPITAL DEFICIENCY**

| | | | |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade and other payables | *9* | **P 64,964,281** | P 101,797,934 |
| Loan payable | *10* | **51,044,000** | - |
| Income tax payable | | **600,578** | 516,919 |
| Total current liabilities | | **116,608,859** | 102,314,853 |
| **Non-current Liability** | | | |
| Retirement benefit obligation | *13* | **1,174,189** | 904,890 |
| Total Liabilities | | **117,783,048** | 103,219,743 |
| **Capital Deficiency** | | | |
| Share capital | *11* | **356,762,200** | 356,762,200 |
| Deficit | | **(391,031,344)** | (381,645,813) |
| Capital deficiency | | **(34,269,144)** | (24,883,613) |
| **Total Liabilities and Capital Deficiency** | | **P 83,513,904** | P 78,336,130 |

***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, 2020 and 2019
*(Amounts in Philippine Pesos)*

| | *Notes* | | **2020** | | 2019 |
|---|---|---|---|---|---|
| Net Sales | *22* | **P** | **151,121,069** | P | 112,353,939 |
| Cost of Sales | *12* | | **48,321,933** | | 37,629,737 |
| Gross Income | | | **102,799,136** | | 74,724,202 |
| Other Income (Expenses) | | | | | |
| Interest and other charges | *9, 10* | | **(11,902,182)** | | (16,146,451) |
| Foreign exchange gain (loss) | | | **2,212,893** | | (1,851,693) |
| Reversal of expected credit losses | *5* | | **1,656,934** | | 6,145,450 |
| Interest income | *4* | | **23,834** | | 24,960 |
| Miscellaneous income | | | **27,763** | | - |
| | | | **(7,980,758)** | | (11,827,734) |
| Other Operating Expenses | *14* | | **(100,352,713)** | | (136,605,373) |
| Loss Before Income Tax | | | **(5,534,335)** | | (73,708,905) |
| Income Tax Expense | *19* | | | | |
| Current | | | **1,971,802** | | 1,556,423 |
| Final | | | **4,767** | | 4,992 |
| Deferred | | | **1,874,627** | | (267,507) |
| Income tax expense | | | **3,851,196** | | 1,293,908 |
| Net Loss for the Year | | | **(9,385,531)** | | (75,002,813) |
| Other Comprehensive Income | | | **-** | | - |
| Total Comprehensive Loss for the Year | | **P** | **(9,385,531)** | P | (75,002,813) |

***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, 2020 and 2019
*(Amounts in Philippines Pesos)*

| | *Note* | **Share Capital** | **Deficit** | **Total** |
|---|---|---|---|---|
| Balance at April 1, 2019 | | P 356,762,200 | P (381,645,813) | P (24,883,613) |
| Total comprehensive loss for the year | | - | (9,385,531) | (9,385,531) |
| **Balance at March 31, 2020** | *11* | **P 356,762,200** | **P (391,031,344)** | **P (34,269,144)** |
| Balance at April 1, 2018 | | 99,927,200 | (306,643,000) | (206,715,800) |
| Issuance of shares | | 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) |

***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, 2020 and 2019
*(Amounts in Philippine Pesos)*

| | *Notes* | **2020** | 2019 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Loss before income tax | | **P (5,534,335)** | P (73,708,905) |
| Adjustments for: | | | |
| Interest and other charges | *9, 10* | **11,902,182** | 16,146,451 |
| Unrealized foreign exchange losses (gains) - net | | **(1,899,150)** | 1,844,696 |
| Depreciation and amortization | *8* | **1,005,294** | 262,162 |
| Interest income | *4* | **(23,834)** | (24,960) |
| Operating profit (loss) before working capital changes | | **5,450,157** | (55,480,556) |
| Decrease (increase) in trade and other receivables | | **(5,246,098)** | 2,071,869 |
| Decrease (increase) in inventories | | **3,191,435** | (349,501) |
| Increase in prepayments and other current assets | | **(972,288)** | (1,355,241) |
| Increase in other non-current assets | | **(1,235,337)** | **-** |
| Increase (decrease) in trade and other payables | | **(17,665,441)** | 50,420,091 |
| Increase in retirement benefit obligation | | **269,299** | 904,890 |
| Cash used in operations | | **(16,208,273)** | (3,788,448) |
| Cash paid for taxes | | **(521,686)** | (56,481) |
| Net cash used in operating activities | | **(16,729,959)** | (3,844,929) |
| **Cash Flows from Investing Activity** | | | |
| Interest received | *4* | **23,834** | 24,960 |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from loan payable | *10* | **52,354,000** | - |
| Interest and other charges paid | *10* | **(29,062,366)** | - |
| Repayments of lease liabilities | *9* | **(901,959)** | - |
| Net cash from financing activities | | **22,389,675** | - |
| **Net Increase (Decrease) in Cash** | | **5,683,550** | (3,819,969) |
| **Cash at Beginning of Year** | | **9,616,148** | 13,436,117 |
| **Cash at End of Year** | | **P 15,299,698** | P 9,616,148 |

**Supplemental Information on Non-cash Financing Activities:**

1. Accrued interest on loan payable amounted to P4.1 million and P21.3 million as of March 31, 2020 and 2019, respectively, and is presented as part of Trade and Other Payables (see Note 9).
2. In 2020, the Company recognized right-of-use asset and lease liability amounting to both P1.2 million as a result of adoption of PFRS 16, *Leases* (see Note 2).
3. 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.***

**ALKEM LABORATORIES CORPORATION**
***(A Wholly Owned Subsidiary of Alkem Laboratories Limited)***

# NOTES TO FINANCIAL STATEMENTS
# AS OF AND FOR THE FISCAL YEARS ENDED MARCH 31, 2020 AND 2019
*(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 nutraceutical 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 net losses of P9.4 million and P75.0 million from its operations for the years ended March 31, 2020 and 2019, respectively, that resulted in a capital deficiency of P34.3 million and P24.9 million as at March 31, 2020 and 2019, 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 March 2019, the Company converted deposit for future stock subscription to capital stock (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 20, 2020.

## 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 medium-sized entity (ME) based on the criteria provided by the SEC. Entities qualifying as MEs are required to use the PFRS for Small and Medium-sized Entities 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.

The Company restated its March 31, 2019 financial statements to reflect the reclassification of the Company's Retirement Benefit Obligation account from current liabilities to non-current liability to conform with the current year presentation. Moreover, allowance for doubtful accounts amounting to P1.3 million was also reclassified from Trade and Other Payables account to Trade and Other Receivables – Net account to correct the presentation in the 2019 statement of financial position. These reclassifications only represent 1.7% of the total assets and 1.3% of the total liabilities in 2019 and have no impact on the Company's previously reported profit or loss and capital deficiency, hence, did not warrant presentation of a third statement of financial position.

In the fiscal year ended March 31, 2020, the Company adopted PFRS 16, *Leases*, which was applied using the transitional relief allowed by the standard. This allows the Company not to restate its prior periods' financial statements. The impact of the adoption of PFRS 16 at the date of initial adoption, which is at April 1, 2019, is on the recognition of right-of-use asset and lease liability in the 2020 statement of financial position.

Accordingly, the adoption of this new accounting standard did not require the Company to present a third statement of financial position.

The table below shows the effects of the adoption of PFRS 16 in the carrying amounts and presentation of certain accounts in the statement of financial position as at April 1, 2019.

| | Carrying Amount (PAS 17) March 31, 2019 | Remeasurement | Carrying Amount (PFRS 16) April 1, 2019 |
|---|---|---|---|
| Assets | | | |
| Property and equipment (Note 8) | P 142,996 | P 1,235,337 | P 1,378,333 |
| Prepayments and other current assets | 2,388,762 | (27,523) | 2,361,239 |
| Liabilities | | | |
| Trade and other payables (Note 9) | (101,797,934) | (1,207,814) | (103,005,748) |
| Total adjustment on net assets | | P - | |

A reconciliation of the opening lease liability recognized at April 1, 2019 and the total operating lease commitments determined under PAS 17 at March 31, 2019 is shown below.

| | | |
|---|---|---|
| Operating lease commitments as at March 31, 2019 (Note 15) | P | 1,367,800 |
| Less: Commitments relating to short term leases | | (132,045) |
| Operating lease liabilities before discounting | | 1,235,755 |
| Discount using incremental borrowing rate | | (27,941) |
| Lease liability recognized at April 1, 2019 | P | 1,207,814 |

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 2020 that are Relevant to the Company*

The Company adopted for the first time the following PFRS, amendments, interpretations and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2019:

| | | |
|---|---|---|
| PAS 19 (Amendments) | : | Employee Benefits – Plan Amendment, Curtailment or Settlement |
| PFRS 9 (Amendments) | : | Financial Instruments – Prepayment Features with Negative Compensation |
| PFRS 16 | : | Leases |
| International Financial Reporting Interpretations Committee (IFRIC) 23 | : | Uncertainty over Income Tax Treatments |
| Annual Improvements to PFRS (2015-2017 Cycle) | | |
| PAS 12 (Amendments) | : | Income Taxes – Tax Consequences of Dividends |
| PAS 23 (Amendments) | : | Borrowing Costs – Eligibility for Capitalization |

Discussed below are the relevant information about these pronouncements.

- PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement*. The amendments clarify that past service cost and gain or loss on settlement is calculated by measuring the net defined benefit liability or asset using updated actuarial assumptions and comparing the benefits offered and plan assets before and after the plan amendment, curtailment or settlement but ignoring the effect of the asset ceiling that may arise when the defined benefit plan is in a surplus position. Further, the amendments now require that if an entity remeasures its net defined benefit liability or asset after a plan amendment, curtailment or settlement, it should also use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the change to the plan. The application of these amendments had no significant impact on the Company's financial statements.

- PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation.* The amendments clarify that prepayment features with negative compensation attached to financial assets may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at fair value through other comprehensive income. The application of these amendments had no significant impact on the Company's financial statements.

- PFRS 16, *Leases*. The new standard replaced PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Standard Interpretations Committee (SIC) 15, *Operating Leases – Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. For lessees, it requires an entity to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and lease liability arising from contract that is, or contains, a lease.

  For lessors, the definitions of the type of lease (i.e., finance and operating leases) and the supporting indicators of a finance lease are substantially the same with the provisions under PAS 17. In addition, basic accounting mechanics are also similar but with some different or more explicit guidance related to variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The Company has adopted PFRS 16 using the modified retrospective approach as allowed under the transitional provisions of the standard. Accordingly, comparative information were not restated.

The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in the succeeding notes under Leases – Company as a Lessee.

Discussed below are the relevant information arising from the Company's adoption of PFRS 16 and how the related accounts are measured and presented on the Company's financial statements as at April 1, 2019.

- For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from PAS 17 and IFRIC 4 and has not applied PFRS 16 to arrangements that were previously not identified as leases under PAS 17 and IFRIC 4.

- The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under PAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of April 1, 2019. The Company's weighted average incremental borrowing rate applied to the lease liabilities on April 1, 2019 was 9.0%.

- The Company has elected not to include initial direct costs in the measurement of right-of-use assets at the date of initial application. The Company also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid lease payments and estimated cost to restore the leased asset that existed as at April 1, 2019.

- For leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Company has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

- The Company has also used the following practical expedients, apart from those already mentioned above, as permitted by the standard:

  - reliance on its historical assessments on whether leases are onerous as an alternative to performing an impairment review on right-of-use assets. As at April 1, 2019, the Company has no onerous contracts; and,
  - use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

- IFRIC 23, *Uncertainty over Income Tax Treatments*. This 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. The application of this interpretation had no significant impact on the Company's financial statements.

- Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments, which are effective from April 1, 2019, are relevant but had no significant impact to the Company:

  - PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that an entity should recognize the income tax consequence of dividend payments in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits.

  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that if any specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, such borrowing is treated as part of the entity's general borrowings when calculating the capitalization rate.

*Effective in Fiscal Year 2020 that are not Relevant to the Company*

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2019 but are not relevant to the Company's financial statements:

| | | |
|---|---|---|
| PAS 28 (Amendments) | : | Investment in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures |
| Annual Improvements to PFRS 3 and 11 (Amendments) | : | Business Combinations and Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation |

*Effective Subsequent to Fiscal Year 2020 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2019, 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 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other Standards that contain definition of material or refer to the term 'material' to ensure consistency.

- Revised Conceptual Framework for Financial Reporting (effective from January 1, 2020). The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised framework.

Financial Assets

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 and Measurement of Financial Assets*

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 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.

If applicable, 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 fair value through profit or loss (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.

*Impairment of Financial Assets*

At the end of the reporting period, the Company assesses and recognizes allowance for expected credit loss (ECL) on its financial assets measured at amortized cost. 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. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company recognizes lifetime ECL for trade and other receivables. The ECL on these assets are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to the debtors, adjusted for general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics.

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.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

*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.

Inventories

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 loans payable and 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.

Loans payable are raised for support of working capital requirements. Interest is charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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, *Revenue from Contracts with Customers.*

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:

(a) identifying the contract with a customer;
(b) identifying the performance obligation;
(c) determining the transaction price;
(d) allocating the transaction price to the performance obligations; and,
(e) recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are 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.

*Sale of goods*

Revenue from sale of goods is recognized as the control transfers at a 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 offset current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

Leases – Company as Lessee
*Accounting for Leases in Accordance with PFRS 16 (2020)*

For any new contracts entered into on or after April 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

When applicable, the Company accounts for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented as part of Property and Equipment, and Trade and Other Payables, respectively.

*Accounting for Leases in Accordance with PAS 17 (2019)*

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 or identified asset or assets and the arrangement conveys a right to use the asset for a period of time in exchange for consideration.

Employee Benefits

*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 five 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 six 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 lives 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.

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 Lease Term of Contracts with Renewal Options (2020)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

For leases of offices, the factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

*Determination of Timing of Satisfaction of Performance Obligations*

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*

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*

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 16.

*Distinction Between Operating and Finance Leases (2019)*

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 15.

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.

*Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2020)*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

*Estimation of Amounts Involving Sales Discounts and Right of Return*

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 statements 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 statements 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 reporting periods 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.

*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 Depreciable 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, 2020 and 2019, there is no change in estimated useful lives of property and equipment during the years. For the right-of-use asset, the Company bases the useful life on the lease term agreed upon in the lease contract. 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 deferred tax assets as of March 31, 2020 and 2019 are presented in Note 19.

*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, 2020 and 2019 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. When applicable, those assumptions include, among others, discount rate and salary rate increase. 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, 2020 and 2019, the Company's provision for post-employment benefit obligation amounted to P1.2 million and P0.9 million, respectively. 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 in the statements of financial position (see Note 13). The related expense is presented as Retirement benefit expense under Other Operating Expenses account in the statements of comprehensive income (see Note 14).

## 4. Cash

This account consists of cash in bank in the amount of P15,299,698 and P9,616,148 as of March 31, 2020 and 2019, respectively.

Cash in banks earn interest at the respective bank deposit rates. The cash in bank of the Company as of March 31, 2020 and 2019 are not legally restricted as to withdrawal.

Interest income earned from cash deposits amounted to P23,834 and P24,960 for the years ended March 31, 2020 and 2019, respectively.

## 5. Trade and Other Receivables - Net

This account consists of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Trade receivables | **P** | **44,708,377** | P | 40,804,064 |
| Other receivables | | **3,179,584** | | 3,559,085 |
| | | **47,887,961** | | 44,363,149 |
| Allowance for doubtful accounts | | **(5,605,467)** | | (7,326,753) |
| Total | **P** | **42,282,494** | P | 37,036,396 |

Trade receivables 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 of at the beginning and end of the reporting periods is shown below.

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **7,326,753** | P | 12,156,652 |
| Reversal during the year | | **(1,656,934)** | | (6,145,450) |
| Written-off during the year | | **(64,352)** | | - |
| Bad debt expense | | **-** | | 1,315,551 |
| Balance at end of year | **P** | **5,605,467** | P | 7,326,753 |

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. Moreover, these advances are settled through salary deduction.

Other receivables account is composed of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Employee advances – Marketing | **P** | **2,259,441** | P | 3,148,489 |
| Employee advances – OPEX | | **920,143** | | 410,596 |
| Total | **P** | **3,179,584** | P | 3,559,085 |

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 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. In 2020 and 2019, the Company assessed that previously impaired trade and other receivables are recoverable; hence, the related allowance for impairment amounting to P1.7 million and P6.1 million were reversed, respectively. The gain on reversal is presented as Reversal of Expected Credit Losses account under Other Income (Expenses) section of the statements of comprehensive income.

In 2019, the Company also recognized allowance for impairment of other receivables 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 14). There was no similar transaction in 2020.

## 6. Inventories

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

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Inventories: | | | | |
| At cost | **P** | **21,117,618** | P | 24,309,053 |
| At net realizable value | | | | |
| Cost | | **2,445,690** | | 2,744,553 |
| Allowance for impairment | | **(2,445,690)** | | (2,744,553) |
| Total | **P** | **21,117,618** | P | 24,309,053 |

Movements in allowance for impairment consist of:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **2,744,553** | P | 441,375 |
| Loss on inventory write-down | | **2,445,690** | | 2,303,178 |
| Written-off during the year | | **(2,744,553)** | | - |
| Balance at end of year | **P** | **2,445,690** | P | 2,744,553 |

In 2020 and 2019, the Company recognized an additional allowance on inventory write-down amounting to P2.4 million and P2.3 million, respectively, which are presented as part of Loss on inventory write-down under Other Operating Expenses in the statements of comprehensive income (see Note 14). The Company has also written-off damaged and expired inventories in 2020 amounting to P2.7 million.

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:

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Right of return asset | | **P** | **1,237,200** | P | 2,182,231 |
| Security deposits | 15 | | **235,707** | | 206,531 |
| Total | | **P** | **1,472,907** | P | 2,388,762 |

## 8. Property and Equipment

As of March 31, 2020

| | | Leasehold Improvements | | Furniture and Fixtures | | Computer and Software | | Office Equipment | | Right-of-Use Asset | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | | | |
| Balance, April 1, 2019 | P | 1,796,056 | P | 756,477 | P | 783,453 | P | 292,556 | P | 1,235,337 | P | 4,863,879 |
| Additions | | - | | - | | - | | - | | - | | - |
| Balance, March 31, 2020 | | 1,796,056 | | 756,477 | | 783,453 | | 292,556 | | 1,235,337 | | 4,863,879 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | | | | |
| Balance, April 1, 2019 | | 1,796,056 | | 710,048 | | 722,662 | | 256,780 | | - | | 3,485,546 |
| Depreciation and amortization | | - | | 46,429 | | 52,419 | | 34,444 | | 872,002 | | 1,005,294 |
| Balance, March 31, 2020 | | 1,796,056 | | 756,477 | | 775,081 | | 291,224 | | 872,002 | | 4,490,840 |
| **Carrying Amounts** | | | | | | | | | | | | |
| March 31, 2019 | | - | | 46,429 | | 60,791 | | 35,776 | | - | | 142,996 |
| **March 31, 2020** | **P** | **-** | **P** | **-** | **P** | **8,372** | **P** | **1,332** | **P** | **363,335** | **P** | **373,039** |

As of March 31, 2019

| | | Leasehold Improvements | | Furniture and Fixtures | | Computer and Software | | Office Equipment | | Right-of-Use Assets | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | | | | | |
| Balance, April 1, 2018 | P | 1,796,056 | P | 756,477 | P | 783,453 | P | 292,556 | P | - | 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 | - | P | 142,996 |

Management believes that there is no indication of impairment on the carrying value of its property and equipment as of March 31, 2020 and 2019. Likewise, the Company has no contractual commitments for the acquisition of property and equipment.

Property and equipment includes right-of-use asset recognized during the year upon adoption of PFRS 16.

The Company leases its principal office space. The lease is reflected on the 2020 statement of financial position as right-of-use asset and lease liability as part of property and equipment and trade and other payables, respectively (see Note 9). It does not have variable lease payments which depend on an index or a rate. The lease imposes a restriction that the right-of-use asset can only be used by the Company. The leases are non-cancellable and does not contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term without mutual agreement on both parties. The Company is prohibited from selling or pledging the underlying leased assets as security. For lease over office space, the Company must also keep the property in a good state of repair and return the property in its original condition at the end of the lease. Further, the Company must incur maintenance fees on such items in accordance with the lease contracts.

The depreciation and amortization relating to the Company's property and equipment are reported as part of Depreciation and amortization under Other Operating Expenses account in the statements of comprehensive income (see Note 14).

## 9. Trade and Other Payables

| | Notes | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Accounts payable | 10 | **P** | **50,116,237** | P | 61,657,868 |
| Accrued expenses | 10 | | **7,949,539** | | 28,787,827 |
| Refund liability | | | **3,880,010** | | 6,819,472 |
| Taxes payable | | | **2,362,211** | | 4,086,036 |
| Lease liability | 8 | | **381,974** | | - |
| SSS/PHIC/HDMF payable | | | **274,310** | | 217,946 |
| Salaries payable | | | - | | 228,785 |
| Total | | **P** | **64,964,281** | P | 101,797,934 |

Accounts payable consists of regular trade payables. These are noninterest-bearing and are normally settled on 60 to 90 days' term for third party creditors and on demand for related party creditor.

Salaries payable represents payables to employees for unutilized leaves.

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

The accrued expenses and other liabilities are due within one year.

The total cash outflow in respect of leases amounted to P901,959 million in 2020. Interest expense in relation to lease liabilities amounted to P76,119 and is presented as part of Interest and other charges under Other Income (Expenses) in the 2020 statement of comprehensive income.

The undiscounted analysis of the lease liability which matures within one year as of March 31, 2020 is as follows:

| | | |
|---|---|---|
| Lease payments | P | 390,612 |
| Finance charges | | (8,818) |
| Total | P | 381,794 |

## 10. Related Party Transactions

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

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Amount of Transaction** | **Outstanding Balance** | Amount of Transaction | Outstanding Balance |
| **Parent Company** | | | | |
| Deposit for future stock subscription | **P -** | **P -** | P (256,835,000) | P - |
| Loan payable* | **52,354,000** | **51,044,000** | - | - |
| Interest and other charges | **11,826,063** | **4,045,237** | 16,146,451 | 21,281,541 |
| Purchases | **30,778,568** | **39,944,681** | 30,301,539 | 49,433,346 |
| **Key Management Personnel** | | | | |
| Compensation | **14,472,251** | **-** | 15,628,330 | - |

**The amount of transaction and outstanding balance includes the effect of unrealized foreign exchange translation gain.*

The loan payable from the Parent Company which amounted to P51.0 million (USD 1.0 million) as of March 31, 2020 bears an interest rate of 9.0% as agreed with the Parent Company which is based on arms-length transaction and used to sustain working capital requirements of the Company. The loan is unsecured and has no fixed repayment terms. Interest on loans and advances amounting to P4.1 million and P21.3 million in 2020 and 2019, respectively, are presented as part of Interest and other charges under Other Income (Expenses) in the statements of comprehensive income. Outstanding interest payable amounting to P4.1 million and P21.3 million as of March 31, 2020 and 2019, respectively, are presented as part of Accrued expenses under Trade and Other Payables account in the statements of financial position (see Note 9). In addition, transfer pricing adjustment amounting to P7.7 million was incurred and paid by the Company to the Parent Company in 2020 which is presented as part of Interest and other charges under Other Income (Expense) in the 2020 statement of comprehensive income.

In March 2019, the deposit for future stock subscription was applied and 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 under Trade and Other Payables account in the statements 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.

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Salaries and wages | **P** | **12,691,369** | P | 14,435,822 |
| Other employee benefits | | **1,780,882** | | 1,192,508 |
| Total | **P** | **14,472,251** | P | 15,628,330 |

## 11. Equity

*Capital Stock*

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

| | Number of Share | | Amount | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Authorized and issued | **4,358,350** | 4,358,350 | **P 435,835,000** | P 435,835,000 |
| | | | | |
| Outstanding shares: | | | | |
| Balance at beginning of year | **3,567,622** | 999,272 | **P 356,762,200** | P 99,927,200 |
| Issued during the year | **-** | 2,568,350 | **-** | 256,835,000 |
| Balance at end of year | **3,567,622** | 3,567,622 | **P 356,762,200** | P 356,762,200 |

In March 2019, the Company issued additional shares through the application and conversion of the Company's deposit for future stock subscription amounting to P256.8 million.

As of March 31, 2020 and 2019, 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 | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Inventory, beginning | 6 | **P** | **24,309,053** | P | 23,959,552 |
| Add: Purchases | | | **44,185,467** | | 38,535,520 |
| Total goods available for sale | | | **68,494,520** | | 62,495,072 |
| Less: Inventory, ending | 6 | | **(21,117,618)** | | (24,309,053) |
| Provision (reversal) for right of return asset | | | **945,031** | | (556,282) |
| Total Cost of Sales | | **P** | **48,321,933** | P | 37,629,737 |

## 13. Employee Benefits

Details of employee benefits are shown below.

| | Note | | 2020 | | 2019 |
|---|---|---|---|---|---|
| Salaries, wages and other benefits | | **P** | **36,203,293** | P | 37,101,270 |
| SSS, PhilHealth and HDMF contributions | | | **1,156,546** | | 906,766 |
| Retirement benefit expense | 14 | | **269,299** | | 904,890 |
| | | **P** | **37,629,138** | P | 38,912,926 |

These expenses are presented under Other Operating Expenses in the statements of comprehensive income (see Note 14).

*Characteristics of the Defined Benefit Plan*

The Company does not have an established retirement plan and only conforms to the minimum regulatory benefit under R.A. 7641 which is of defined benefit type and provides a retirement benefit equal to 22.5 days pay for every year of credited service for employees who attain the normal retirement age of 60 years old with at least five years of credited service. The regulatory benefit is paid in lump-sum upon retirement.

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.

*Explanation of Amounts Presented in the Financial Statements*

As at March 31, 2020 and 2019, the post-employment defined benefit obligation amounted to P1.2 million and P0.9 million, respectively.

The movements in the present value of the post-employment defined benefit obligation recognized in the statements of financial position are as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **904,890** | P | - |
| Current service cost | | **269,299** | | 904,890 |
| Balance at end of year | **P** | **1,174,189** | P | 904,890 |

Current service cost is presented as Retirement benefit expense under Other Operating Expenses account in the statements of comprehensive income (see Note 14).

The average remaining working life of an individual retiring at the age of 60 is 19.7 years and 17.4 years in 2020 and 2019, respectively. Other assumptions are based on management's historical experience.

*Risks Associated with the Retirement Benefit Obligation*

The plan exposes the Company to certain risks such as longevity risk and salary risk. Details of these risks are described below.

Longevity and Salary Risks
The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

Expected Contributions
The plan is currently unfunded by P1.2 million. While there are no minimum funding requirements in the country, the size of underfunding may pose a cash flow risk in about 19-year's time when a significant number of employees is expected to retire. The Company does not expect to fund the plan within the next reporting period.

## 14. Other Operating Expenses

This account consists of:

| | Notes | | **2020** | | 2019 |
|---|---|---|---|---|---|
| Salaries and wages | 13 | **P** | **37,359,839** | P | 38,008,036 |
| Advertising | | | **22,635,986** | | 24,867,072 |
| Other discounts | | | **11,112,205** | | 18,690,722 |
| Travel and transportation | | | **9,372,739** | | 11,185,334 |
| Sales incentive | | | **4,760,518** | | 9,032,696 |
| Freight out | | | **3,052,454** | | 3,656,009 |
| Loss on inventory write-down | 6 | | **2,445,690** | | 2,303,178 |
| Rental | 15 | | **1,570,776** | | 3,731,570 |
| Utilities | | | **1,471,129** | | 2,544,414 |
| Outside services | | | **1,085,341** | | 540,817 |
| Depreciation and amortization | 8 | | **1,005,294** | | 262,162 |
| Taxes and licenses | 22 | | **940,429** | | 3,200,513 |
| Training and seminars | | | **789,185** | | 1,734,481 |
| Repairs and maintenance | | | **530,501** | | 619,510 |
| Professional fees | | | **331,200** | | 1,445,299 |
| Retirement benefit expense | 13 | | **269,299** | | 904,890 |
| Bank charges | | | **24,603** | | 120,118 |
| Fines and penalties | | | **4,038** | | 6,579,167 |
| Bad debt expense | 5 | | **-** | | 1,315,551 |
| Miscellaneous | | | **1,591,487** | | 5,863,834 |
| Total | | **P** | **100,352,713** | P | 136,605,373 |

## 15. 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:

| | | |
|---|---|---|
| Within one year | P | 984,290 |
| More than one year | | 383,510 |
| Total | P | 1,367,800 |

The total rentals from the short-term leases amounted to P1.6 million in 2020 and are presented as part of Rental expense under Other Operating Expenses account in the 2020 statement of comprehensive income. The total rentals from operating leases in 2019 amounted to P3.7 million and are presented as Rental expense under Other Operating Expenses account in the 2019 statement of comprehensive income (see Note 14)

Security deposits related to these lease commitments amounted to P0.2 million as at March 31, 2020 and 2019, and are 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.

## 16. 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 and liquidity 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 pages.

*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 and other payables and loan payable to its Parent Company (see Note 10).

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

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **USD** | **Closing Rate** | **PHP** | USD | Closing Rate | PHP |
| Loan payable | **1,000,000** | **51.0** | **51,044,000** | - | - | - |
| Trade and other payables | **782,553** | **51.0** | **39,944,681** | 936,557 | 52.8 | 49,433,346 |
| Accrued interest | **79,250** | **51.0** | **4,045,237** | 403,197 | 52.8 | 21,281,541 |
| | **1,861,803** | | **95,033,918** | 1,339,754 | | 70,714,887 |

There were no U.S. dollar-denominated financial assets as of March 31, 2020 and 2019.

As at March 31, 2020 and 2019, if the peso had strengthened by 14.54% and 11.20% against the U.S. dollar with all other variables held constant, loss before tax for the year would have been lower by P13.8 million and P7.8 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 statements of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

| | Notes | | **2020** | | 2019 |
|---|---|---|---|---|---|
| Cash | 4 | **P** | **15,299,698** | P | 9,616,148 |
| Trade and other receivables | 5 | | **42,282,494** | | 37,036,396 |
| Security deposits | 7 | | **235,707** | | 206,531 |
| Total | | **P** | **57,817,899** | P | 46,859,075 |

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, 2020 and 2019, the Company's receivables are composed mainly of receivables from these 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 used in determining the allowance for impairment of trade and other receivables are based on the payment profiles of revenues over a period of 36 months before March 31, 2020 and 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 continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Funding for long-term liquidity needs is additionally supported by ability to obtain advances from the Parent Company.

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

As at March 31, the contractual maturities of the Company's financial liabilities (except lease liability – see Note 9) are within one year and are presented below.

| 2020 | | Less than 1 year | | Between 1 – 10 years | | Total |
|---|---|---|---|---|---|---|
| Trade and other payables | P | 61,945,786 | P | - | P | 61,945,786 |
| Loan payable | | 51,044,000 | | - | | 51,044,000 |
| **Total** | **P** | **112,989,786** | **P** | **-** | **P** | **112,989,786** |

| 2019 | | Less than 1 year | | Between 1 – 10 years | | Total |
|---|---|---|---|---|---|---|
| Trade and other payables | P | 97,493,952 | P | - | P | 97,493,952 |
| Total | P | 97,493,952 | P | - | P | 97,493,952 |

## 17. 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, when applicable, 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 statements of financial position) less cash. Total capital is calculated as capital deficiency' as shown in the statements of financial position plus net debt.

As of March 31, 2020 and 2019, the Company's ratios of debt to total capital are as follows:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Total liabilities | **P** | **117,783,048** | P | 103,219,743 |
| Less: Cash | | **15,299,698** | | 9,616,148 |
| Net debt | | **102,483,350** | | 93,603,595 |
| Total capital deficiency | | **(34,269,144)** | | (24,883,613) |
| Total capital | **P** | **68,214,206** | P | 68,719,982 |
| Debt to Equity | | **1.50** | | 1.36 |

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.

## 18. 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 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | | **2020** | | 2019 | | **2020** | | 2019 |
| **Financial assets** | | | | | | | | | |
| Cash | 4 | **P** | **15,299,698** | P | 9,616,148 | **P** | **15,299,698** | P | 9,616,148 |
| Trade and other receivables | 5 | | **42,282,494** | | 37,036,396 | | **42,282,494** | | 37,036,396 |
| Security deposits | 7 | | **235,707** | | 206,531 | | **235,707** | | 206,531 |
| Total | | **P** | **57,817,899** | P | 46,859,075 | **P** | **57,817,899** | P | 46,859,075 |
| **Financial liabilities** | | | | | | | | | |
| Trade and other payables | 9 | **P** | **62,327,760** | P | 97,493,952 | **P** | **62,327,760** | P | 97,493,952 |
| Loan payable | 10 | | **51,044,000** | | - | | **51,044,000** | | - |
| Total | | **P** | **113,371,760** | P | 97,493,952 | **P** | **113,371,760** | P | 97,493,952 |

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, 2020 and 2019. For financial assets instruments measured at amortized cost, management's determined that their carrying amounts are equal to or approximate their fair values; accordingly, it no longer presented the fair value hierarchy. Nevertheless, only cash would fall under Level 1 and the rest under Level 3 of the fair value hierarchy.

Management considers that the carrying amounts of these financial assets and financial liabilities approximates their fair values as of March 31, 2020 and 2019 either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year, if any, 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 16.

Offsetting of Financial Assets and Financial Liabilities
The Company has not set-off financial instruments in 2020 and 2019 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.

## 19. Income Taxation

*Provision for income tax*

The components of tax expense reported in profit or loss are as follows:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Current tax expense | | | | |
| Minimum corporate income tax (MCIT) at 2% | **P** | **1,971,802** | P | 1,556,423 |
| Final tax at 20% | | **4,767** | | 4,992 |
| | | **1,976,569** | | 1,561,415 |
| Deferred tax expense (income) | | **1,874,627** | | (267,507) |
| Total Income Tax Expense | **P** | **3,851,196** | P | 1,293,908 |

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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Pretax loss | **P** | **(5,534,335)** | P | (73,708,905) |
| Provision for income tax at statutory rate | | **(1,660,301)** | | (22,112,672) |
| Additions (reductions) in income tax: | | | | |
| Application of net operating loss carryover (NOLCO) | | **(9,354,431)** | | - |
| Non-deductible operating expenses | | **9,348,690** | | 15,135,911 |
| Non-deductible interest expense | | **3,547,819** | | 4,843,935 |
| Unrecognized DTA on MCIT | | **1,971,802** | | 1,556,423 |
| Adjustment for income subjected to lower tax rate | | **(2,383)** | | (2,496) |
| Unrecognized DTA on NOLCO | | - | | 1,872,807 |
| Total Income Tax Expense | **P** | **3,851,196** | P | 1,293,908 |

*Deferred tax asset*

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

| | Statements of Financial Position | | Statements of Comprehensive Income | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Allowance for doubtful accounts | **P 1,415,520** | P 1,803,361 | **P (387,841)** | P (1,843,634) |
| Refund liability | **1,164,003** | 2,045,842 | **(881,839)** | 762,197 |
| Allowance for inventory losses | **733,707** | 823,366 | **(89,659)** | 690,953 |
| Unrealized foreign exchange losses (gains) - net | **(569,745)** | 553,409 | **(1,123,154)** | 553,409 |
| Right of return asset | **(371,161)** | (654,670) | **283,509** | (166,885) |
| Retirement benefit obligation | **352,257** | 271,467 | **80,790** | 271,467 |
| Accrued expenses | **237,975** | - | **237,975** | - |
| Lease liability | **114,592** | - | **114,592** | - |
| Right-of-use assets | **(109,000)** | - | **(109,000)** | - |
| Deferred tax assets – net | **P 2,968,148** | P 4,842,775 | | |
| Deferred tax income (expense) – net | | | **P (1,874,627)** | P 267,507 |

The details of NOLCO as of March 31, 2020 are as follows:

| Year of Incurrence | Year of Expiry | Amount Incurred | Applied | Expired | Ending Balance |
|---|---|---|---|---|---|
| 2017 | 2020 | P 30,000,000 | P (30,000,000) | P - | P - |
| 2018 | 2021 | 35,674,678 | (1,181,438) | - | 34,493,240 |
| 2019 | 2022 | 12,365,920 | - | - | 12,365,920 |
| Total | | P 78,040,598 | P (31,181,438) | P - | P 46,859,160 |

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 2020 and 2019, the Company reported MCIT as it is higher than the RCIT.

The MCIT incurred in 2020, 2019 and 2018, amounting to P2.0 million, 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 or until 2023, 2022 and 2021, respectively, from the year the MCIT was paid.

The Company did not recognize deferred tax assets amounting to P17.6 million and P25.0 million as of March 31, 2020 and 2019, 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 2020 and 2019, the Company opted to claim itemized deductions in computing for its income tax due.

## 20. Events After the End of the Reporting Period

In December 2019, a novel strain of corona virus (COVID-19) was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern.' COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of enhanced quarantine and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension - disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

While the disruption is currently expected to be temporary, management expect the suspension of businesses to negatively impact the Company's financial condition and results of operations**.** However, the severity of these consequences will depend on certain developments, including the duration and spread of the outbreak, impact on Company's customers, suppliers, employees, and the accessibility and effectiveness of government support programs to a group of customers, all of which are uncertain and cannot be predicted as of the date of the issuance of the Company's financial statements. The Company is also exposed to the potential negative effect of COVID-19 in foreign markets particularly that the Company is importing its products from India. Accordingly, management is not able to reliably estimate the impact of the outbreak on the Company's financial position and results of operation for future periods.

In support and compliance with the government measures to protect the welfare and interest of the Company's employees and stakeholders, including its counterparties, the Company has implemented safety measures and activated its business continuity procedures. Management believes that these measures can mitigate the further negative impact of the outbreak to the Company's business and to its financial condition and performance.

The Company has determined that these events are non-adjusting subsequent events. Accordingly, their impact was not reflected in the Company's financial statements as of and for the year ended March 31, 2020.

## 21. Other Information Required by the Securities and Exchange Commission

R.A. No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code) took effect on March 8, 2019. The new provisions of the Revised Corporation Code or any amendments thereof have no significant impact to the Company's financial statements.

## 22. 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, 2020.

*VAT*

a. Output VAT

| | | Net Sales | | Output VAT |
|---|---|---|---|---|
| Taxable Sales | | | | |
| Vatable sales | P | 148,787,812 | P | 17,854,538 |

b. Input VAT

| | | |
|---|---|---|
| Balance at April 1, 2019 | P | - |
| Current transactions | | |
| Importation of goods other than capital goods | | 4,055,027 |
| Domestic purchases of services | | 2,363,140 |
| Domestic purchases of goods | | 554,442 |
| Total | | 6,972,609 |
| Applied against output VAT | | (6,972,609) |
| **Balance at March 31, 2020** | **P** | **-** |

*Taxes on Importation*

As of March 31, 2020, the total landed cost of the Company's imported inventory for use in business amounted to P35,406,528. This includes customs duties and tariff fees totaling P1,706,932.

*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).

| | | |
|---|---|---|
| Business tax | P | 938,561 |
| Documentary stamp tax (DST) | | 1,868 |
| **Total** | **P** | **940,429** |

*Excise Taxes*

As of March 31, 2020, 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 | 4,665,733 |
| Expanded withholding taxes | | 847,667 |
| Final withholding taxes | | - |
| **Total** | **P** | **5,513,400** |

*Tax Assessment and Cases*

As at March 31, 2020, the Company does not have any final deficiency tax assessments with the BIR or tax cases outstanding with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

## 23. Operating Segment

The Company is in the pharmaceutical business and has only a single reportable segment. Consequently, segment reporting disclosure requirements of PFRS 8, *Operating Segments,* 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 2020 and 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:

| | | 2020 | | 2019 |
|---|---|---|---|---|
| Mercury Drug Corporation | **P** | **87,371,934** | P | 66,847,576 |
| Getz Brothers Philippines Inc | | **55,377,252** | | 44,018,788 |
| Total | **P** | **142,749,186** | P | 110,866,364 |

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