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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, 2021 and 2020, 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, 2021 and 2020, 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 P26.7 million and P9.4 million from its operations in 2021 and 2020, respectively, that resulted in a capital deficiency of P60.9 million and P34.3 million as at March 31, 2021 and 2020, 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 has already launched a new medicine by the end of 2021 and plans to launch different types of medicines in the next reporting period in order to 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 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 1 to the financial statements, which describes management's assessment of the continuing impact on the Company's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended March 31, 2021 required by the Bureau of Internal Revenue as disclosed in Note 20 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: John Endel S. Mata
Partner

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Partner - No. 121347-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
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April 26, 2021

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Financial Position
As of March 31, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	**2021**	2020
ASSETS			
Current Assets			
Cash	*4*	**P 16,530,675**	P 15,299,698
Trade and other receivables - net	*5*	**36,567,272**	42,282,494
Inventories – net	*6*	**28,172,653**	21,117,618
Prepayments and other current assets	*7*	**2,193,199**	1,472,907
Total current assets		**83,463,799**	80,172,717
Non-current Assets			
Property and equipment - net	*8*	**528,444**	373,039
Deferred tax assets - net	*19*	**2,154,696**	2,968,148
Total non-current assets		**2,683,140**	3,341,187
Total Assets		**P 86,146,939**	P 83,513,904
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liabilities			
Trade and other payables	*9*	**P 97,061,155**	P 64,964,281
Income tax payable		**-**	600,578
Total current liabilities		**97,061,155**	65,564,859
Non-current Liabilities			
Loan payable	*10*	**48,466,000**	51,044,000
Retirement benefit obligation	*13*	**1,566,972**	1,174,189
Total non-current liabilities		**50,032,972**	52,218,189
Total Liabilities		**147,094,127**	117,783,048
Capital Deficiency			
Share capital	*11*	**356,762,200**	356,762,200
Deficit		**(417,709,388)**	(391,031,344)
Capital deficiency		**(60,947,188)**	(34,269,144)
Total Liabilities and Capital Deficiency		**P 86,146,939**	P 83,513,904

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, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes		**2021**		2020
Net Sales	*21*	**P**	**89,538,806**	P	151,121,069
Cost of Sales	*12*		**34,806,762**		48,321,933
Gross Income			**54,732,044**		102,799,136
Other Income (Expenses)					
Interest and other charges	*9, 10*		**(4,392,042)**		(11,902,182)
Reversal of expected credit losses	*5*		**2,751,980**		1,656,934
Foreign exchange gain - net	*10*		**1,766,733**		2,212,893
Interest income	*4*		**11,098**		23,834
Miscellaneous income			**101,311**		27,763
			239,080		(7,980,758)
Other Operating Expenses	*14*		**(80,150,571)**		(100,352,713)
Loss Before Income Tax			**(25,179,447)**		(5,534,335)
Income Tax Expense	*19*				
Current			**683,031**		1,971,802
Final			**2,114**		4,767
Deferred			**813,452**		1,874,627
Income tax expense			**1,498,597**		3,851,196
Net Loss for the Year			**(26,678,044)**		(9,385,531)
Other Comprehensive Income			**-**		-
Total Comprehensive Loss for the Year		**P**	**(26,678,044)**	P	(9,385,531)

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, 2021 and 2020
(Amounts in Philippines Pesos)

	Note	**Share Capital**	**Deficit**	**Total**
Balance at April 1, 2020		P 356,762,200	P (391,031,344)	P (34,269,144)
Total comprehensive loss for the year		-	(26,678,044)	(26,678,044)
Balance at March 31, 2021	*11*	**P 356,762,200**	**P (417,709,388)**	**P (60,947,188)**
Balance at April 1, 2019		356,762,200	(381,645,813)	(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)

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, 2021 and 2020
(Amounts in Philippine Pesos)

	Notes	**2021**	2020
Cash Flows from Operating Activities			
Loss before income tax		**P (25,179,447)**	P (5,534,335)
Adjustments for:			
Interest and other charges	*9, 10*	**4,392,042**	11,902,182
Unrealized foreign exchange gains - net		**(3,651,222)**	(1,899,150)
Depreciation and amortization	*8*	**448,049**	1,005,294
Interest income	*4*	**(11,098)**	(23,834)
Operating profit (loss) before working capital changes		**(24,001,676)**	5,450,157
Decrease (increase) in trade and other receivables		**5,715,222**	(5,246,098)
Decrease (increase) in inventories		**(7,055,035)**	3,191,435
Increase in prepayments and other current assets		**(2,003,901)**	(972,288)
Increase in other non-current assets		**-**	(1,235,337)
Increase (decrease) in trade and other payables		**34,086,308**	(17,665,441)
Increase in retirement benefit obligation		**392,783**	269,299
Cash grenerated from (used in) operations		**7,133,701**	(16,208,273)
Cash paid for taxes		**(779,974)**	(521,686)
Net cash from (used in) operating activities		**6,353,727**	(16,729,959)
Cash Flows from Investing Activities			
Acquisition of property and equipment	*8*	**(603,454)**	-
Interest received	*4*	**11,098**	23,834
Net cash from (used in) investing activities		**(592,356)**	23,834
Cash Flows from Financing Activities			
Interest and other charges paid	*10*	**(4,139,782)**	(29,062,366)
Repayments of lease liabilities	*9*	**(390,612)**	(901,959)
Proceeds from loan payable	*10*	**-**	52,354,000
Net cash from (used in) financing activities		**(4,530,394)**	22,389,675
Net Increase in Cash		**1,230,977**	5,683,550
Cash at Beginning of Year		**15,299,698**	9,616,148
Cash at End of Year		**P 16,530,675**	P 15,299,698

Supplemental Information on Non-cash Financing Activities:

1. Accrued interest on loan payable amounted to P8.3 million and P4.0 million as of March 31, 2021 and 2020, 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).

See Notes to Financial Statements.

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 P26.7 million and P9.4 million from its operations for the years ended March 31, 2021 and 2020, respectively, that resulted in a capital deficiency of P60.9 million and P34.3 million as at March 31, 2021 and 2020, 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 has already launched a new medicine by the end of 2021 and plans to launch different types of medicines in the next reporting period in order to generate net profit in the coming years. Management is confident that the business prospects for the Company in the succeeding years will be more favorable. 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.

Impact of COVID-19 Pandemic on Company's Business
The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

The following are the impact of the COVID-19 pandemic to the Company's business:

- decrease in total revenues and increase in net loss by 41% and 184%, respectively, in 2021 compared to that of 2020;
- interaction with healthcare professionals by the Company's medical representatives and sales managers have been very limited during the year; and,
- additional administrative expenses were incurred by the Company to ensure health and safety of its employees and customers such as the frequent disinfection of facilities and COVID-19 testing for its employees.

In response to this matter, the Company has taken the following actions:

- strengthened its partnership with leading drugstore chain and top dispensing doctors;
- implemented flexible working arrangements for the sales force such as virtual coverage;
- deferred payments to suppliers to manage working capital;
- reduced the number of medical representatives and physical marketing activities, and conducted online customer relations activities such as webinars; and,
- actively participated in various government tenders.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, it projects that the Company's results of operations would recover from the business downturn and also remain liquid based on its unutilized credit line and overall continuing financial support from its parent company to meet current obligation as it falls due.

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 April 26, 2021.

2. Summary of Significant Accounting Policies

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

The Company has qualified as a Small Entity (SE) based on the criteria provided by the SEC. Entities qualifying as SEs are required to use the PFRS for Small 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 prior year financial statements to correct an error in the classification of its Loan Payable from current liabilities to non-current liabilities. Such restatement did not require a third statement of financial position as the loan was only obtained in 2020. The restatement also had no effect to the statement of comprehensive income and statement of cash flows for the year ended March 31, 2020.

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 2021 that are Relevant to the Company

The Company adopted for the first time the following revised conceptual framework and amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below are the relevant information about these pronouncements.

- *Revised Conceptual Framework for Financial Reporting*. 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. The application of the revised conceptual framework had no 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*. 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. The application of these amendments had no significant impact on the Company's financial statements.

- PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Company's financial statements.

Effective in Fiscal Year 2021 that are not Relevant to the Company

Among the amendments to existing standards which are mandatorily effective for annual periods beginning on or after January 1, 2020, PFRS 3 (Amendments), *Business Combinations – Definition of a Business*, is not relevant to the Company's financial statements.

Effective Subsequent to Fiscal Year 2021 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the relevant pronouncements below 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.

- PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

- PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

- Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:

    a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

    b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.

- PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Financial Instruments

Financial Assets

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

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 solely payments of principal and interest 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 Company determines whether there has been a significant increase in credit risk for financial asset since initial recognition b y comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

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

- *Probability of default* – is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *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, including the effect of any credit enhancement.

- Exposure at default – represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

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.

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.

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.

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.

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

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. Property and equipment which is comprised of furniture and fixtures, computer software and office equipment has a useful life of three 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.

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.

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
For any new contracts entered into, 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 and payments arising from renewal options 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.

The Company has elected to account 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.

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 Relationships and Transactions

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; and, (b) 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

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.

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.

<u>Key Sources of Estimation Uncertainty</u>

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

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, 2021 and 2020, 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, 2021 and 2020 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, 2021 and 2020 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, 2021 and 2020, the Company's provision for post-employment benefit obligation amounted to P1.6 million and P1.2 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 P16,530,675 and P15,299,698 as of March 31, 2021 and 2020, respectively.

Cash in banks earn interest at the respective bank deposit rates. The cash in bank of the Company as of March 31, 2021 and 2020 are not legally restricted as to withdrawal.

Interest income earned from cash deposits amounted to P11,098 and P23,834 for the years ended March 31, 2021 and 2020, respectively.

5. Trade and Other Receivables - Net

This account consists of:

		2021		2020
Trade receivables	**P**	**35,880,380**	P	44,708,377
Other receivables		**3,540,379**		3,179,584
		39,420,759		47,887,961
Allowance for impairment		**(2,853,487)**		(5,605,467)
Total	**P**	**36,567,272**	P	42,282,494

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.

		2021		2020
Balance at beginning of year	**P**	**5,605,467**	P	7,326,753
Reversal during the year		**(2,751,980)**		(1,656,934)
Written-off during the year		**-**		(64,352)
Balance at end of year	**P**	**2,853,487**	P	5,605,467

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:

		2021		2020
Employee advances – Marketing	**P**	**2,938,018**	P	2,259,441
Employee advances – OPEX		**602,361**		920,143
Total	**P**	**3,540,379**	P	3,179,584

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 2021 and 2020, the Company assessed that previously impaired trade and other receivables are recoverable; hence, the related allowance for impairment amounting to P2.8 million and P1.7 million, respectively, were reversed. The gain on reversal is presented as Reversal of Expected Credit Losses account under Other Income (Expenses) section of the statements of comprehensive income.

6. Inventories

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

		2021		2020
Inventories:				
At cost	**P**	**28,172,653**	P	21,117,618
At net realizable value				
Cost		**8,923,941**		2,445,690
Allowance for impairment		**(8,923,941)**		(2,445,690)
Total	**P**	**28,172,653**	P	21,117,618

Movements in allowance for impairment consist of:

		2021		2020
Balance at beginning of year	**P**	**2,445,690**	P	2,744,553
Loss on inventory write-down		**6,478,251**		2,445,690
Written-off during the year		**-**		(2,744,553)
Balance at end of year	**P**	**8,923,941**	P	2,445,690

In 2021 and 2020, the Company recognized an additional allowance on inventory write-down amounting to P6.5 million and P2.4 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 not written-off or destroyed damaged and expired inventories in 2021.

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		**2021**		2020
Right of return asset		**P**	**1,294,858**	P	1,237,200
Input VAT			**363,667**		-
Prepaid taxes			**360,999**		-
Security deposits	15		**173,675**		235,707
Total		**P**	**2,193,199**	P	1,472,907

8. Property and Equipment

As of March 31, 2021

	Leasehold Improvements	Furniture and Fixtures	Computer and Software	Office Equipment	Right-of-use Asset	Total
Cost						
Balance, April 1, 2020	P 1,796,056	P 756,477	P 783,453	P 292,556	P 1,235,337	P 4,863,879
Additions	-	-	603,454	-	-	603,454
Disposal or derecognition	-	-	-	-	(1,235,337)	(1,235,337)
Balance, March 31, 2021	1,796,056	756,477	1,386,907	292,556	-	4,231,996
Accumulated Depreciation and Amortization						
Balance, April 1, 2020	1,796,056	756,477	775,081	291,224	872,002	4,490,840
Depreciation and amortization	-	-	83,382	1,332	363,335	448,049
Disposal or derecognition	-	-	-	-	(1,235,337)	(1,235,337)
Balance, March 31, 2021	1,796,056	756,477	858,463	292,556	-	3,703,552
Carrying Amounts						
March 31, 2020	-	-	8,372	1,332	363,335	373,039
March 31, 2021	**P -**	**P -**	**P 528,444**	**P -**	**P -**	**P 528,444**

As of March 31, 2020

	Leasehold Improvements	Furniture and Fixtures	Computer and Software	Office Equipment	Right-of-use Assets	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

Management believes that there is no indication of impairment on the carrying value of its property and equipment as of March 31, 2021 and 2020. Likewise, the Company has no contractual commitments for the acquisition of property and equipment.

The Company leases its 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). 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. This lease expired in 2021 and the corresponding right-of-use assets was derecognized. The Company has one remaining lease for a period of one year. The Company elected to account such lease as a short-term lease (see Note 15).

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		2021		2020
Accounts payable	10	**P**	**80,475,937**		50,116,237
Accrued expenses	10		**12,220,451**		7,949,539
Refund liability			**3,426,142**		3,880,010
Taxes payable			**649,783**		2,362,211
SSS/PHIC/HDMF payable			**288,842**		274,310
Lease liability	8		-		381,974
Total		**P**	**97,061,155**	P	64,964,281

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 P0.4 million and P0.9 million in 2021 and 2020, respectively. Interest expense in relation to lease liabilities amounted to P8,637 and P76,119 in 2021 and 2020, respectively, and are 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, 2021 is as follows:

Lease payments	P	390,611
Finance charges		(8,637)
Total	P	381,974

10. Related Party Transactions

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

	2021		2020	
	Amount of Transaction	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Company				
Loan payable*	**2,578,000**	**48,466,000**	52,354,000	51,044,000
Interest and other charges	**4,288,860**	**8,334,097**	11,826,063	4,045,237
Purchases	**36,260,383**	**67,216,857**	30,778,568	39,944,681
Key Management Personnel				
Compensation	**15,699,195**	-	14,472,251	-

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

On April 2, 2018, the Company entered into a five-year USD 2.0 million loan facility agreement with its Parent Company. There are no debt covenants required in the loan facility agreement. As of March 31, 2021 and 2020, the Company already received USD 1.0 million. The loan, which is used to sustain working capital requirements of the Company, is unsecured and bears an interest rate of 9.0%. The loan is repayable at the end of the loan facility agreement or termination, whichever comes earlier. Interest on such loan amounting to P4.3 million and P4.1 million in 2021 and 2020, 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 P8.4 million and P4.0 million as of March 31, 2021 and 2020, respectively, are presented as part of Accrued expenses under Trade and Other Payables account in the statements of financial position (see Note 9). 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 statements of comprehensive income. No similar transaction occurred in 2021.

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.

		2021		2020
Salaries and wages	**P**	**13,896,170**	P	12,691,369
Other employee benefits		**1,803,025**		1,780,882
Total	**P**	**15,699,195**	P	14,472,251

11. Equity

Capital Stock

Details of capital stock with par value per share of P100 as of March 31, 2021 and 2020 are as follows:

	Number of Shares		Amount
Authorized and issued	**4,358,350**	**P**	**35,835,000**
Outstanding shares	**3,567,622**	**P**	**356,762,200**

As of March 31, 2021 and 2020, 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		2021		2020
Inventory, beginning	6	**P**	**21,117,618**	P	24,309,053
Add: Purchases			**41,919,456**		44,185,467
Total goods available for sale			**63,037,074**		68,494,520
Less: Inventory, ending	6		**(28,172,653)**		(21,117,618)
Provision (reversal) for right of return asset			**(57,659)**		945,031
Total Cost of Sales		**P**	**34,806,762**	P	48,321,933

13. Employee Benefits

Details of employee benefits are shown below.

	Note		2021		2020
Salaries, wages and other benefits		**P**	**36,081,694**	P	36,203,293
SSS, PhilHealth and HDMF contributions			**1,181,674**		1,156,546
Retirement benefit expense			**392,782**		269,299
	14	**P**	**37,656,150**	P	37,629,138

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 RA No. 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, 2021 and 2020, the post-employment defined benefit obligation amounted to P1.6 million and P1.2 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:

		2021		2020
Balance at beginning of year	**P**	**1,174,189**	P	904,890
Current service cost		**392,783**		269,299
Balance at end of year	**P**	**1,566,972**	P	1,174,189

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 16.8 years and 19.7 years in 2021 and 2020, 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.

<u>Longevity and Salary Risks</u>
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.

<u>Expected Contributions</u>
The plan is currently unfunded by P1.6 million. While there are no minimum funding requirements in the country, the size of underfunding may pose a cash flow risk in about 17-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		2021		2020
Salaries and wages	13	**P**	**37,263,368**	P	37,359,839
Advertising			**12,124,502**		22,635,986
Loss on inventory write-down	6		**6,478,251**		2,445,690
Senior citizen discount			**5,885,840**		11,112,205
Travel and transportation			**3,670,254**		9,372,739
Sales incentive			**2,856,513**		4,760,518
Rental	15		**2,145,452**		1,570,776
Freight out			**1,475,928**		3,052,454
Utilities			**1,037,605**		1,471,129
Fines and penalties			**915,226**		4,038
Taxes and licenses			**868,817**		940,429
Professional fees			**644,551**		331,200
Repairs and maintenance			**539,881**		530,501
Depreciation and amortization	8		**448,049**		1,005,294
Retirement benefit expense	13		**392,782**		269,299
Outside services			**220,132**		1,085,341
Bank charges			**18,220**		24,603
Training and seminars			**-**		789,185
Miscellaneous			**3,165,200**		1,591,487
Total		**P**	**80,150,571**	P	100,352,713

15. Commitments and Contingencies

Operating Lease Commitment – Company as Lessee
The Company entered into various short-term lease agreement under operating leases covering the office space and pallets. The short-term lease has a term of one year, with renewal options subject to mutual agreement of the parties.

At March 31, 2021 and 2020, the Company is committed to short-term leases, and the total commitment at these dates is P0.16 million and P0.18 million, respectively.

The total rentals from these operating leases amounted to P2.1 million and P1.6 million in 2021 and 2010, respectively, are presented as Rentals under Other Operating Expenses in the statements of comprehensive income (see Note 14).

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.

	2021			2020		
	USD	**Closing Rate**	**PHP**	USD	Closing Rate	PHP
Loan payable	**1,000,000**	**48.5**	**48,466,000**	1,000,000	51.0	51,044,000
Trade and other payables	**1,386,887**	**48.5**	**67,216,857**	782,553	51.0	39,944,681
Accrued interest	**173,487**	**48.5**	**8,334,097**	79,250	51.0	4,045,237
	2,560,374		**124,016,954**	1,861,803		95,033,918

There were no U.S. dollar-denominated financial assets as of March 31, 2021 and 2020.

As at March 31, 2021 and 2020, if the peso had strengthened by 8.12% and 14.54% against the U.S. dollar with all other variables held constant, loss before tax for the year would have been lower by P10.1 million and P13.8 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		**2021**		2020
Cash	4	**P**	**16,530,675**	P	15,299,698
Trade and other receivables	5		**36,567,272**		42,282,494
Security deposits	7		**173,675**		235,707
Total		**P**	**53,271,622**	P	57,817,899

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, 2021 and 2020, 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, 2021 and 2020, 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 or utilize its credit facility with 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 and in the succeeding page.

2021		Less than 1 year		Between 1 – 5 years		Total
Trade and other payables	P	96,122,530	P	-	P	96,122,530
Loan payable		-		57,189,880		57,189,880
Total	**P**	**96,122,530**	**P**	**57,189,880**	**P**	**153,312,410**

2020		Less than 1 year		Between 1 – 5 years		Total
Trade and other payables	P	61,945,786	P	-	P	61,945,786
Loan payable		-		64,825,000		64,825,000
Total	P	61,945,786	P	64,825,000	P	127,153,640

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 in the future (when applicable), 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, 2021 and 2020, the Company's ratios of debt to total capital are as follows:

		2021		2020
Total liabilities	**P**	**147,094,127**	P	117,783,048
Less: Cash		**16,530,675**		15,299,698
Net debt		**130,563,452**		102,483,350
Total capital deficiency		**(60,947,188)**		(34,269,144)
Total capital	**P**	**69,616,264**	P	68,214,206
Debt to Equity		**1.88**		1.50

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		
	Notes		2021		2020		2021	2020
Financial assets								
Cash	4	**P**	**16,530,675**	P	15,299,698	**P**	**16,530,675**	P 15,299,698
Trade and other receivables	5		**36,567,272**		42,282,494		**36,567,272**	42,282,494
Security deposits	7		**173,675**		235,707		**173,675**	235,707
Total		**P**	**53,271,622**	P	57,817,899	**P**	**53,271,622**	P 57,817,899
Financial liabilities								
Trade and other payables	9	**P**	**96,122,530**	P	62,327,760	**P**	**96,122,530**	P 62,327,760
Loan payable	10		**48,466,000**		51,044,000		**48,466,000**	51,044,000
Total		**P**	**144,588,530**	P	113,371,760	**P**	**144,588,530**	P 113,371,760

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, 2021 and 2020. 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 also considers that the carrying amounts of these financial assets and financial liabilities approximates their fair values as of March 31, 2021 and 2020 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 2021 and 2020 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

On March 26, 2021, RA No. 11534, the *Corporate Recovery and Tax Incentives for Enterprises* (CREATE) Act, as amended, was signed into law and shall be effective beginning July 1, 2020. The CREATE Act aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

- regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
- the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
- the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Provision for income tax

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

		2021		2020
Current tax expense				
MCIT at 1% and 2%	**P**	**683,031**	P	1,971,802
Final tax at 20%		**2,114**		4,767
		685,145		1,976,569
Deferred tax expense		**813,452**		1,874,627
Total Income Tax Expense	**P**	**1,498,597**	P	3,851,196

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 statements of comprehensive income for the years ended March 31 follows:

		2021		2020
Pretax loss	**P**	**(25,179,447)**	**P**	(5,534,335)
Provision for income tax at statutory rate		**(5,665,377)**		(1,660,301)
Additions (reductions) in income tax:				
Non-deductible operating expenses		**3,782,580**		9,348,690
Non-deductible interest expense		**986,266**		3,547,819
Unrecognized DTA on Net Operating Loss Carry Over (NOLCO)		**970,323**		-
Adjustment for regular corporate income tax (RCIT) rate (20%)		**742,038**		-
Unrecognized DTA on MCIT		**683,031**		1,971,802
Adjustment for income subjected to lower tax rate		**(264)**		(2,383)
Application of NOLCO		**-**		(9,354,431)
Total Income Tax Expense	**P**	**1,498,597**	**P**	3,851,196

Deferred tax asset

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

	Statements of Financial Position		**Statements of Comprehensive Income**	
	2021	2020	**2021**	2020
Allowance for doubtful accounts	**P 442,444**	P 1,415,520	**P (973,076)**	P (387,841)
Refund liability	**770,882**	1,164,003	**(393,121)**	(881,839)
Allowance for inventory losses	**2,007,887**	733,707	**1,274,180**	(89,659)
Unrealized foreign exchange gains – net	**(1,192,264)**	(569,745)	**(622,519)**	(1,123,154)
Right of return asset	**(291,344)**	(371,161)	**79,817**	283,509
Retirement benefit obligation	**352,569**	352,257	**312**	80,790
Accrued expenses	**64,522**	237,975	**(173,453)**	237,975
Lease liability	**-**	114,592	**(114,592)**	114,592
Right-of-use assets	**-**	(109,000)	**109,000**	(109,000)
Deferred tax assets – net	**P 2,154,696**	P 2,968,148		
Deferred tax expense			**P (813,452)**	P (1,874,627)

Pursuant to Revenue Regulations (RR) No. 25-2020, the NOLCO for taxable years 2020 and 2021 shall be claimed as deduction within five consecutive years immediately following the year of such loss. The details of NOLCO as of March 31, 2021 are as follows:

Year of Incurrence	Year of Expiry	Amount Incurred	Applied	Expired	Ending Balance
2018	2021	P 35,674,678	(P 1,181,438)	P -	P 34,493,240
2019	2022	12,365,920	-	-	12,365,920
2021	2026	4,312,545	-	-	4,312,545
Total		P 52,353,1439	(P 1,181,438)	P -	P51,171,705

The Company is subject to the MCIT, which is computed at 2% for April 1, 2020 to June 30, 2020 and 1% for July 1, 2020 to March 31, 2021 (and 2% for the year ended March 31, 2020) of gross income, as defined under the tax regulations or RCIT, whichever is higher. In 2021 and 2020, the Company reported MCIT as it is higher than the RCIT.

The MCIT incurred in 2021, 2020 and 2019, amounting to P638,031, P1,971,802 and P1,566,423, respectively, can be applied as deduction from the Company's future regular income tax due within three years or until 2024, 2023 and 2022, respectively, from the year the MCIT was incurred.

The Company did not recognize deferred tax assets amounting to P12.7 million and P17.6 million as of March 31, 2021 and 2020, 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 2021 and 2020, the Company opted to claim itemized deductions in computing for its income tax due.

20. Compliance with Revenue Regulations No. 15-2010

The following are the supplementary information and disclosures required under RR No. 15-2010 for the year ended March 31, 2021.

VAT

a. Output VAT

		Net Sales		Output VAT
Taxable Sales				
Vatable sales	P	91,420,762	P	6,842,405

b. Input VAT

Balance at April 1, 2020	P	-
Current transactions		
Importation of goods other than capital goods		4,674,936
Domestic purchases of services		1,473,415
Domestic purchases of goods		694,054
Total		6,842,405
Applied against output VAT		(6,842,405)
Balance at March 31, 2021	**P**	**-**

Taxes on Importation

As of March 31, 2021, the total landed cost of the Company's imported inventory for use in business amounted to P40,825,362. This includes customs duties and tariff fees totaling P1,867,560.

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 2021 statement of comprehensive income (see Note 13).

Business tax	P	866,855
Documentary stamp tax		1,962
Total	**P**	**868,817**

Ex*cise Taxes*

As of March 31, 2021, the Company did not have any transaction which is subject to excise tax.

Wit*hholding Taxes*

Details of withholding taxes for the year are as follows:

Withholding taxes on compensation and benefits	P	4,557,076
Expanded withholding taxes		598,152
Final withholding taxes		-
Total	**P**	**5,155,228**

Tax Assessment and Cases

As at March 31, 2021, the Company paid final deficiency tax assessments with the BIR amounting to P915,226 for tax assessments related to taxable year 2018. This is presented as Fines and penalties under Other Operating Expenses in the 2021 statement of comprehensive income.

21. Operating Segment

The Company is in the pharmaceutical business and has only a single reportable segment. Consequently, segment reporting disclosure requirements of PFRS 8, *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 2021 and 2020, 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:

		2021		2020
Mercury Drug Corporation	**P**	**50,485,059**	P	87,371,934
Getz Brothers Philippines Inc		**35,713,475**		55,377,252
Total	**P**	**86,198,534**	P	142,749,186

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