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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, 2022 and 2021, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2022 and 2021, 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 from its operations in 2021 that resulted to a capital deficiency of P52.5 million and P60.9 million as at March 31, 2022 and 2021, 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 generated positive results from its operations in 2022 and has already launched a new medicine by the end of 2021 and plans to launch different types of medicines in the next reporting periods in order to continue generating a net income 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 condition. In connection with our audit, we have performed audit procedures to evaluate management's plans and actions as to likelihood of improving the situation and as to feasibility under the circumstances. Accordingly, the Company's financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended March 31, 2022 required by the Bureau of Internal Revenue as disclosed in Note 22 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Mary Grace A. Punay
Partner

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SEC Group A Accreditation
Partner - No. 116576-SEC (until Dec. 31, 2025)
Firm - No. 0002 (until Dec. 31, 2024)
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May 5, 2022

ALKEM LABORATORIES CORPORATION
(A Wholly Owned Subsidiary of Alkem Laboratories Limited)
Statements of Financial Position
As of March 31, 2022 and 2021
(Amounts in Philippine Pesos)

	Notes	**2022**	2021
ASSETS			
Current Assets			
Cash	*4*	**P 69,754,835**	P 16,530,675
Trade and other receivables - net	*5*	**31,995,540**	36,567,272
Inventories - net	*6*	**26,132,590**	28,172,653
Prepayments and other current assets	*7*	**6,735,673**	2,193,199
Total current assets		**134,618,638**	83,463,799
Non-current Assets			
Property and equipment - net	*8*	**568,460**	528,444
Deferred tax assets - net	*19*	**3,396,824**	2,154,696
Total non-current assets		**3,965,284**	2,683,140
Total Assets		**P 138,583,922**	P 86,146,939
LIABILITIES AND CAPITAL DEFICIENCY			
Current Liability			
Trade and other payables	*9*	**P 136,305,793**	P 97,061,155
Non-current Liabilities			
Loan payable	*10*	**51,960,000**	48,466,000
Retirement benefit obligation	*13*	**2,865,872**	1,566,972
Total non-current liabilities		**54,825,872**	50,032,972
Total Liabilities		**191,131,665**	147,094,127
Capital Deficiency			
Share capital	*11*	**356,762,200**	356,762,200
Revaluation reserves	*13*	**(763,844)**	-
Deficit		**(408,546,099)**	(417,709,388)
Capital deficiency		**(52,547,743)**	(60,947,188)
Total Liabilities and Capital Deficiency		**P 138,583,922**	P 86,146,939

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, 2022 and 2021
(Amounts in Philippine Pesos)

	Notes		**2022**		2021
Net Sales	*20*	**P**	**169,546,872**	P	89,538,806
Cost of Sales	*12*		**65,812,480**		34,806,762
Gross Income			**103,734,392**		54,732,044
Other Income (Expenses)					
Interest and other charges	*9, 10*		**(4,550,332)**		(4,392,042)
Foreign exchange gain - net			**1,252,367**		1,766,733
Reversal of expected credit losses	*5*		**172,791**		2,751,980
Interest income	*4*		**48,002**		11,098
Miscellaneous income			**11,155**		101,311
			(3,066,017)		239,080
Other Operating Expenses	*14*		**(90,452,143)**		(80,150,571)
Profit (Loss) Before Income Tax			**10,216,232**		(25,179,447)
Income Tax Expense (Income)	*19*				
Current			**2,030,869**		683,031
Deferred			**(987,513)**		813,452
Final			**9,587**		2,114
			1,052,943		1,498,597
Net Income (Loss) for the Year			**9,163,289**		(26,678,044)
Other Comprehensive Loss					
Items that will not be reclassified subsequently to profit or loss					
Remeasurements of retirement benefit obligation	*13*		**(1,018,459)**		-
Tax income	*19*		**254,615**		-
			(763,844)		-
Total Comprehensive Income (Loss) for the Year		**P**	**8,399,445**	P	(26,678,044)

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, 2022 and 2021
(Amounts in Philippines Pesos)

	Share Capital (see Note 11)	**Revaluation Reserves** (see Note 13)	**Deficit**	**Capital Deficiency**
Balance at April 1, 2021	P 356,762,200	P -	P (417,709,388)	P (60,947,188)
Total comprehensive income (loss) for the year	-	(763,844)	9,163,289	8,399,445
Balance at March 31, 2022	**P 356,762,200**	**P (763,844)**	**P (408,546,099)**	**P (52,547,743)**
Balance at April 1, 2020	P 356,762,200	P -	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	P 356,762,200	P -	P (417,709,388)	P (60,947,188)

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, 2022 and 2021
(Amounts in Philippine Pesos)

	Notes	**2022**	2021
Cash Flows from Operating Activities			
Profit (loss) before income tax		**P 10,216,232**	P (25,179,447)
Adjustments for:			
Interest and other charges	*9, 10*	**4,550,332**	4,392,042
Unrealized foreign exchange gains - net		**691,979**	(3,651,222)
Depreciation and amortization	*8*	**365,493**	448,049
Interest income	*4*	**(48,002)**	(11,098)
Operating profit (loss) before working capital changes		**15,776,034**	(24,001,676)
Decrease in trade and other receivables		**4,571,732**	5,715,222
Decrease (increase) in inventories		**2,040,063**	(7,055,035)
Increase in prepayments and other current assets		**(3,165,721)**	(2,003,901)
Increase in trade and other payables		**37,496,327**	29,946,526
Increase in retirement benefit obligation		**280,441**	392,783
Cash generated from operations		**56,998,876**	2,993,919
Cash paid for taxes		**(3,417,209)**	(779,974)
Net cash from operating activities		**53,581,667**	2,213,945
Cash Flows from Investing Activities			
Acquisition of property and equipment	*8*	**(405,509)**	(603,454)
Interest received	*4*	**48,002**	11,098
Net cash used in investing activities		**(357,507)**	(592,356)
Cash Flows from a Financing Activity			
Repayments of lease liabilities	*9*	-	(390,612)
Net Increase in Cash		**53,224,160**	1,230,977
Cash at Beginning of Year		**16,530,675**	15,299,698
Cash at End of Year		**P 69,754,835**	P 16,530,675

Supplemental Information on Non-cash Financing Activity –

Accrued interest on loan payable amounted to P13.5 million and P8.3 million as of March 31, 2022 and 2021, respectively, and is presented as part of Accrued expenses under Trade and Other Payables in the statements of financial position (see Notes 9 and 21).

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED MARCH 31, 2022 AND 2021
(Amounts in Philippines Pesos)

1. General Information

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

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

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

Status of Operations
The Company has incurred a net loss of P26.7 million from its operations for the year ended March 31, 2021 that resulted to a capital deficiency of P52.5 million and P60.9 million as at March 31, 2022 and 2021, 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 generated positive results from its operations in 2022 and has already launched a new medicine by the end of 2021 and plans to launch different types of medicines in the next reporting periods in order to continue generating a net income 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.

Continuing Impact of COVID-19 Pandemic on Company's Business
The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

In 2022 and 2021, the Company has taken the following measures to mitigate the adverse effects of the COVID-19 pandemic to the Company's business:

- 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.

As a result of the actions taken by management, the Company's operations improved in 2022 as follows:

- total revenues increased by 89% as compared to that of 2021, as a result of continuation of business operations despite the different quarantine classifications imposed by the government in 2021;
- interaction with healthcare professionals by the Company's medical representatives and sales managers have resumed to 80% from the pre-pandemic coverage. Limitations are only for those areas with surges in the number of active COVID-19 cases; 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.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management projects that the Company would continue to report positive results of operations and would continue to obtain support from the parent company to remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern due to the effects of the pandemic.

Approval of Financial Statements

The financial statements of the Company as of and for the year ended March 31, 2022 (including the comparative financial statements as of and for the year ended March 31, 2021) were authorized for issue by the Company's Board of Directors (BOD) on May 5, 2022.

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.

In 2022 and 2021, the Company has qualified as a Medium Entity (ME) and Small Entity (SE), respectively, based on the criteria provided by the SEC. Entities qualifying as MEs and SEs are required to use the PFRS for Small and Medium-sized Entities and PFRS for Small Entities, respectively, 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 for both years 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 (loss) 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.

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 2022 that are Relevant to the Company

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

PFRS 9, PFRS 7 and PFRS 16 (Amendments)	:	Interest Rate Benchmark Reform Phase 2 Financial Instruments, Financial Instruments: Disclosures, Leases
PFRS 16 (Amendments)	:	Leases – COVID-19-Related Rent Concessions beyond June 30, 2021

Discussed below are the relevant information about these pronouncements.

- PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases - Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments had no impact to the Company's financial statements as the Company did not have any financial instruments subject to LIBOR.

- PFRS 16, *Leases-COVID-19-Related Rent Concessions beyond June 30, 2021*. The Company opted to adopt early the application of these amendments, which is effective from April 1, 2021. The amendments extend for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 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. The application of these amendments had no significant impact to the Company's financial statements as the Company did not receive any rent concession from its lessors in 2022.

Effective Subsequent to Fiscal Year 2022 but not Adopted Early

There are amendments and annual improvements to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. The Company will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements:

- PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)

- PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

- 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 percent' Test for Derecognition of Liabilities*

    b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

- PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

- PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

- PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

- PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

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; 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 as Interest Income under Other Income (Expenses) in the statement of comprehensive 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 that is available without undue cost or effort at the reporting date about past events, current conditions, reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may 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 by 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* – It 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* – It 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 collateral or effect of any credit enhancement.

- *Exposure at default* – It 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.

<u>Financial Liabilities</u>
The Company's financial liabilities, which include loan 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.

Loan payable is 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 (except Security deposits), which are non-financial 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. They are subsequently charged to profit and loss as utilized and/or reclassified to another asset account, if capitalizable.

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.

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.

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 and 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 (income) 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 assets and deferred tax liabilities 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.

As of March 31, 2022 and 2021, the Company has no lease agreements that qualified for recognition of a right-of-use asset and lease liability.

Employee Benefits

Post-employment benefits

Under Republic Act (R.A.) No. 7641, *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 of 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.

Revaluation reserves comprise gains and losses due to the remeasurements of retirement benefit obligation.

Deficit includes 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.

Key Sources of Estimation Uncertainty
The discussion in the succeeding pages 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 (see Note 9). 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, 2022 and 2021, there is no change in estimated useful lives of property and equipment during the years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The amounts of recognized deferred tax assets as of March 31, 2022 and 2021 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, 2022 and 2021 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, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

As of March 31, 2022 and 2021, the Company's provision for post-employment benefit obligation amounted to P2.9 million and P1.6 million, respectively. In 2022, the Company has engaged the services of an independent actuary for the valuation of its retirement benefit obligation. However, the amount of accrual was not actuarially determined in 2021 and based on management's assessment, the amount of accrual does not materially differ had it been determined by an actuary. The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 13.

4. Cash

This account consists of cash in bank amounting to P69.8 million and P16.5 million as of March 31, 2022 and 2021, respectively.

Cash in bank earns interest at the respective bank deposit rates. The cash in bank of the Company as of March 31, 2022 and 2021 are not legally restricted as to withdrawal.

Interest income earned from cash deposits amounted to P48.0 thousand and P11.1 thousand for the years ended March 31, 2022 and 2021.

5. Trade and Other Receivables - Net

This account consists of:

		2022		2021
Trade receivables	**P**	**31,050,466**	P	35,880,380
Other receivables		**3,625,770**		3,540,379
		34,676,236		39,420,759
Allowance for impairment		**(2,680,696)**		(2,853,487)
Total	**P**	**31,995,540**	P	36,567,272

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.

		2022		2021
Balance at beginning of year	**P**	**2,853,487**	P	5,605,467
Reversal during the year		**(172,791)**		(2,751,980)
Balance at end of year	**P**	**2,680,696**	P	2,853,487

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:

		2022		2021
Employee advances – Marketing	**P**	**2,837,703**	P	2,938,018
Employee advances – OPEX		**788,067**		602,361
Total	**P**	**3,625,770**	P	3,540,379

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 2022 and 2021, the Company assessed that previously impaired trade and other receivables are recoverable; hence, the related allowance for impairment amounting to P0.2 million and P2.8 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** - Net

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

		2022		2021
Inventories:				
At cost	**P**	**26,132,590**	P	28,172,653
At net realizable value				
Cost		**9,302,532**		8,923,941
Allowance for impairment		**(9,302,532)**		(8,923,941)
Total	**P**	**26,132,590**	P	28,172,653

Movements in allowance for impairment consist of:

		2022		2021
Balance at beginning of year	**P**	**8,923,941**	P	2,445,690
Loss on inventory write-down		**3,297,147**		6,478,251
Written-off during the year		**(2,918,556)**		-
Balance at end of year	**P**	**9,302,532**	P	8,923,941

In 2022 and 2021, the Company recognized an additional allowance on inventory write-down amounting to P3.3 million and P6.5 million, respectively, which are presented as part of Loss on inventory write-down under Other Operating Expenses in the statements of comprehensive income (see Note 14). The Company has also written-off destroyed, damaged and expired inventories amounting to P2.9 million in 2022. There was no similar transaction 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 of:

	Note		**2022**		2021
Input VAT		**P**	**4,156,317**	P	363,667
Right of return asset			**2,545,145**		1,294,858
Security deposits	15		**34,211**		173,675
Prepaid taxes			**-**		360,999
Total		**P**	**6,735,673**	P	2,193,199

Right of return asset pertains to the Company's right to receive goods back from its customers based on its expected returns in the succeeding years in accordance with PFRS 15.

8. Property and Equipment

As of March 31, 2022

		Leasehold Improvements		**Furniture and Fixtures**		**Computer and Software**		**Office Equipment**		**Right-of-use Asset**		**Total**
Cost												
Balance, April 1, 2021	P	1,796,056	P	756,477	P	1,386,907	P	292,556	P	-	P	4,231,996
Additions		-		-		405,509		-		-		405,509
Balance, March 31, 2022		1,796,056		756,477		1,792,416		292,556		-		4,637,505
Accumulated Depreciation and Amortization												
Balance, April 1, 2021		1,796,056		756,477		858,463		292,556		-		3,703,552
Depreciation and amortization		-		-		365,493		-		-		365,493
Balance, March 31, 2022		1,796,056		756,477		1,223,956		292,556		-		4,069,045
Carrying Amounts												
March 31, 2021		-		-		528,444		-		-		528,444
March 31, 2022	**P**	**-**	**P**	**-**	**P**	**568,460**	**P**	**-**	**P**	**-**	**P**	**568,460**

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

Management believes that there is no indication of impairment on the carrying value of its property and equipment as of March 31, 2022 and 2021. Likewise, the Company has no contractual commitments for the acquisition of property and equipment.

The Company leases its office space. The lease imposes a restriction that the right-of-use asset can only be used by the Company. The lease is 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, which was previously reflected in the statement of financial position as right-of-use asset and lease liability as part of property and equipment and trade and other payables, respectively, 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).

As of March 31, 2022 and 2021, the gross carrying amount of the Company's fully-depreciated property and equipment that are still in use is P2.8 million.

9. Trade and Other Payables

This account consists of:

	Note		2022		2021
Accounts payable					
Related parties	10	**P**	**104,354,584**	P	67,216,857
Third parties			**9,736,708**		13,259,080
Accrued expenses					
Related parties	10		**13,470,630**		8,334,097
Third parties			**6,407,451**		3,886,354
Refund liability			**1,468,719**		3,426,142
Taxes payable			**682,654**		649,783
SSS/PHIC/HDMF payable			**185,047**		288,842
Total		**P**	**136,305,793**	P	97,061,155

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.

Accrued expenses include accrued interest and salaries payable, which represents payables to employees for unutilized leaves.

Taxes payable includes withholding taxes and government remittances, which are normally remitted within ten 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 in 2021. Interest expense in relation to lease liability amounted to P8,638 in 2021 and is presented as part of Interest and other charges under Other Income (Expenses) in the 2021 statement of comprehensive income. There was no similar transaction in 2022.

10. Related Party Transactions

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

		2022				2021		
		Amount of Transaction		**Outstanding Balance**		Amount of Transaction		Outstanding Balance
Parent Company								
Loan payable*	**P**	**3,494,000**	**P**	**51,960,000**	P	2,578,000	P	48,466,000
Interest and other charges*		**4,550,332**		**13,470,630**		4,392,405		8,334,097
Purchases*		**43,089,616**		**104,354,584**		36,260,383		67,216,857
Key Management Personnel								
Compensation		**8,412,702**		**-**		15,699,195		-

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

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, 2022 and 2021, 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 in April 2023 or termination, whichever comes earlier. Interest on such loan amounting to P4.6 million and P4.4 million in 2022 and 2021, respectively, is presented as part of Interest and other charges under Other Income (Expenses) in the statements of comprehensive income. Outstanding interest payable amounting to P13.5 million and P8.3 million as of March 31, 2022 and 2021, respectively, is presented as part of Accrued expenses under Trade and Other Payables account in the statements of financial position (see Note 9).

The Company also purchases inventories from its Parent Company which are then 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.

		2022		2021
Salaries and wages	**P**	**7,086,719**	P	13,896,170
Other employee benefits		**1,325,983**		1,803,025
Total	**P**	**8,412,702**	P	15,699,195

11. Equity

Capital Stock

Details of capital stock with par value per share of P100 as of March 31, 2022 and 2021 are as follows:

	Number of Shares		Amount
Authorized	**4,358,350**	**P**	**435,835,000**
Issued and outstanding shares	**3,567,622**	**P**	**356,762,200**

As of March 31, 2022 and 2021, 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		**2022**		2021
Inventory, beginning	6	**P**	**28,172,653**	P	21,117,618
Add: Purchases			**65,022,704**		41,919,456
Total goods available for sale			**93,195,357**		63,037,074
Less: Inventory, ending	6		**(26,132,590)**		(28,172,653)
Reversal for right of return asset			**(1,250,287)**		(57,659)
Total Cost of Sales		**P**	**65,812,480**	P	34,806,762

13. Employee Benefits

Details of employee benefits are shown below.

	Note		2022		2021
Salaries, wages and other benefits		**P**	**29,145,173**	P	36,081,693
SSS, PhilHealth and HDMF contributions			**1,242,990**		1,181,674
Retirement benefit expense			**280,441**		392,783
	14	**P**	**30,668,604**	P	37,656,150

These expenses are presented as Salaries and wages and Retirement benefit expense under Other Operating Expenses in the statements of comprehensive income (see Note 14).

Characteristics of the Defined Benefit Plan

The Company does not have an established retirement plan and only conforms to the minimum regulatory benefit under R.A. 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.

In 2022, the Company has engaged the services of an independent actuary for the valuation of its retirement benefit obligation. However, the amount of accrual was not actuarially determined and based on management's assessment, the amount of accrual does not materially differ had it been determined by an actuary in 2021.

Explanation of Amounts Presented in the Financial Statements

As at March 31, 2022 and 2021, the post-employment defined benefit obligation amounted to P2.9 million and P1.6 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:

		2022		2021
Balance at beginning of year	**P**	**1,566,972**	P	1,174,189
Current service cost		**280,441**		392,783
Actuarial losses (gains) arising from:				
Deviations of experience from assumptions		**1,771,644**		-
Changes in financial assumptions		**(1,081,449)**		-
Changes in demographic assumptions		**328,264**		-
Balance at end of year	**P**	**2,865,872**	P	1,566,972

Current service cost is presented as Retirement benefit expense under Other Operating Expenses account in profit or loss (see Note 14), while the component recognized in the 2022 statement of comprehensive income is presented below.

		2022
Reported in other comprehensive income		
Actuarial losses (gains) arising from:		
Deviations of experience from assumptions		**1,771,644**
Changes in financial assumptions		**(1,081,449)**
Changes in demographic assumptions		**328,264**
	P	**1,018,459**

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used as of March 31, 2022:

Discount rate	**5.62%**
Expected salary increase rate	**3.00%**

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21 years and 16.8 years in 2022 and 2021, respectively. These assumptions were developed by management with the assistance of an independent actuary in 2022. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating to the terms of the retirement benefit obligation. Other assumptions are based on current actuarial benchmarks and 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>Sensitivity Analysis</u>
The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of March 31, 2022.

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
Discount rate	+/- 1.00%	P (304,805)	P 368,695
Expected salary increase rate	+/- 1.00%	378,825	(322,642)
Employee turnover rate	+/- 10.00%	86,336	(86,336)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

<u>Expected Contributions</u>
The plan is currently unfunded by P2.9 million. While there are no minimum funding requirements in the country, the size of underfunding may pose a cash flow risk in about 21-years' 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		2022		2021
Salaries and wages	13	**P**	**30,388,163**	P	37,263,367
Advertising			**21,739,981**		12,124,502
Sales incentive			**8,085,372**		2,856,513
Senior citizen discount			**6,950,897**		5,885,840
Travel and transportation			**5,685,946**		3,670,254
Loss on inventory write-down	6		**3,297,147**		6,478,251
Fines and penalties			**3,027,737**		915,226
Rental	15		**2,186,095**		2,145,452
Freight out			**2,037,682**		1,475,928
Utilities			**1,352,867**		1,037,605
Professional fees			**1,351,543**		644,551
Taxes and licenses			**851,674**		868,817
Repairs and maintenance			**727,214**		539,881
Depreciation and amortization	8		**365,493**		448,049
Retirement benefit expense	13		**280,441**		392,783
Outside services			**70,968**		220,132
Bank charges			**14,980**		18,220
Miscellaneous			**2,037,943**		3,165,200
Total		**P**	**90,452,143**	P	80,150,571

Sales incentives refer to the amounts paid to the medical representatives who are direct employees of the Company. The corresponding withholding tax on compensation were deducted and accordingly remitted to the Bureau of Internal Revenue.

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.

As at March 31, 2022 and 2021, the Company is committed to short-term leases, and the total commitment at these dates is P0.17 million and P0.16 million, respectively.

The total rentals from these operating leases amounted to P2.2 million and P2.1 million in 2022 and 2021, respectively, are presented as Rental under Other Operating Expenses in the statements of comprehensive income (see Note 14).

The related security deposits from these leases amounted to P34.2 thousand and P0.2 million as of March 31, 2022 and 2021, respectively, which are presented as Security deposits under Prepayments and Other Current Assets in the statements of financial position (see Note 7).

Others

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

16. Financial Risk Management Objectives and Policies

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

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

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

Foreign currency risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Foreign exchange risk arises from the Company's trade and other payables, and loan payable to its Parent Company (see Notes 9 and 10).

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

	2022			2021		
	USD	**Closing Rate**	**PHP**	USD	Closing Rate	PHP
Cash	**10,113**	**51.96**	**525,477**	10,109	48.50	444,313
Trade and other payables	**(2,008,364)**	**51.96**	**(104,354,584)**	(1,386,887)	48.50	(67,216,857)
Loan payable	**(1,000,000)**	**51.96**	**(51,960,000)**	(1,000,000)	48.50	(48,466,000)
Accrued interest	**(259,250)**	**51.96**	**(13,470,630)**	(173,487)	48.50	(8,334,097)
	(3,257,701)		**(169,259,737)**	(2,550,265)		(123,572,641)

As at March 31, 2022 and 2021, if the peso had strengthened by 11.68% and 8.12% against the U.S. dollar with all other variables held constant, loss before tax for the year would have been lower by P19.8 million and P10.0 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		2022		2021
Cash	4	**P**	**69,754,835**	P	16,530,675
Trade and other receivables	5		**31,050,466**		35,880,380
Security deposits	7		**34,211**		173,675
Total		**P**	**100,839,512**	P	52,584,730

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 considers the credit quality of trade receivables that are not past due or impaired to be good. As of March 31, 2022 and 2021, 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, 2022 and 2021, 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 are presented below.

2022		Within One Year		One to Five Years		Total
Trade and other payables	P	135,438,092	P	-	P	135,438,092
Loan payable		-		61,060,665		61,060,665
Total	**P**	**135,438,092**	**P**	**61,060,665**	**P**	**196,498,757**

2021		Within One Year		One to Five 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

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, 2022 and 2021, the Company's ratios of debt to total capital are as follows:

		2022		2021
Total liabilities	**P**	**191,131,665**	P	147,094,127
Less: Cash		**69,754,835**		16,530,675
Net debt		**121,376,830**		130,563,452
Total capital deficiency		**(52,547,743)**		(60,947,188)
Total capital	**P**	**68,829,087**	P	69,616,264
Debt to Equity		**1.76**		1.88

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	**2022**	2021	**2022**	2021
Financial assets					
Cash	4	**P 69,754,835**	P 16,530,675	**P 69,754,835**	P 16,530,675
Trade and other receivables	5	**29,256,840**	33,913,963	**29,256,840**	33,913,963
Security deposits	7	**34,211**	173,675	**34,211**	173,675
Total		**P 99,045,886**	P 50,618,313	**P 99,045,886**	P 50,618,313

		Carrying values		Fair values	
	Notes	**2022**	2021	**2022**	2021
Financial liabilities					
Trade and other payables	9	**P 135,438,092**	P 96,122,530	**P 135,438,092**	P 96,122,530
Loan payable	10	**51,960,000**	48,466,000	**51,960,000**	48,466,000
Total		**P 187,398,092**	P 144,588,530	**P 187,398,092**	P 144,588,530

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, 2022 and 2021. 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, 2022 and 2021 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 2022 and 2021 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, R.A. 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; and,
- the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

In 2022 and 2021, the recognized net deferred tax assets (DTA) as of March 31, 2021 and 2020 was remeasured to 25% and 22.5%, respectively. This result in a decline and increase in the recognized net DTA in 2022 by P0.2 million and P0.7 million, respectively, and such was recognized in the profit or loss section in the statements of comprehensive income.

Provision for income tax

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

		2022		2021
Reported in profit or loss				
Current tax expense				
RCIT at 25%	**P**	**4,952,824**	P	-
Application of MCIT		**(2,921,955)**		-
Final tax at 20%		**9,587**		2,114
MCIT at 1%		**-**		683,031
		2,040,456		685,145
Deferred tax expense (income) arising from:				
Origination and reversal of temporary differences		**(748,102)**		813,452
Effect of change in income tax rate		**(239,411)**		-
		(987,513)		813,452
Total Income Tax Expense	**P**	**1,052,943**	P	1,498,597
Reported in other comprehensive income				
Deferred tax income arising from origination of temporary differences	**P**	**(254,615)**	P	-

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:

		2022		2021
Tax on pretax income (loss) at 25% in 2022 and 22.5% in 2021	**P**	**2,554,058**	P	(5,665,377)
Tax effects of:				
Non-deductible operating expenses		**4,694,697**		3,782,580
Non-deductible interest expense		**1,137,583**		986,266
Adjustment for RCIT rate (25% in 2022 and 20% in 2021)		**(239,411)**		742,038
Unrecognized deferred tax asset (DTA) on net operating loss carry over (NOLCO)		**-**		970,323
Unrecognized DTA on MCIT		**-**		683,031
Adjustment for income subjected to lower tax rate		**(2,413)**		(264)
Application of NOLCO		**(4,169,616)**		-
Application of MCIT		**(2,921,955)**		-
Total Income Tax Expense	**P**	**1,052,943**	P	1,498,597

Deferred tax assets

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

	Statements of Financial Position				**Statements of Comprehensive Income**			
		2022		2021		**2022**		2021
Allowance for inventory losses	**P**	**2,325,633**	P	2,007,887	**P**	**317,746**	P	1,274,180
Unrealized foreign exchange gains – net		**(1,101,816)**		(1,192,264)		**90,448**		(622,519)
Accrued expenses		**1,277,239**		64,522		**1,212,717**		(173,453)
Retirement benefit obligation		**716,468**		352,569		**363,899**		312
Right of return asset		**(636,287)**		(291,344)		**(344,943)**		79,817
Allowance for doubtful accounts		**448,407**		442,444		**5,963**		(973,076)
Refund liability		**367,180**		770,882		**(403,702)**		(393,121)
Lease liability		**-**		-		**-**		(114,592)
Right-of-use asset		**-**		-		**-**		109,000
Deferred tax assets – net	**P**	**3,396,824**	P	2,154,696				
Deferred tax income (expense)					**P**	**1,242,128**	P	(813,452)

Pursuant to Revenue Regulations (RR) No. 25-2020, the NOLCO for taxable year 2022 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, 2022 are as follows:

Year of Incurrence	Year of Expiry		Amount Incurred		Applied in Current and Prior Years	Expired		Ending Balance
2018	2021	P	35,674,678	P	(1,181,438)	P (34,493,240)	P	-
2019	2022		12,365,920		(12,365,920)	-		-
2021	2026		4,312,545		(4,312,545)	-		-
Total		P	52,353,1439	P	(17,859,903)	P (34,493,240)	P	-

The Company is subject to the MCIT, which is computed at 1% of gross income, net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. In 2022, the Company reported RCIT as it is higher than the MCIT, while in 2021, the Company reported MCIT as it is higher than the RCIT. The details of MCIT as of March 31, 2022 are as follows:

Year of Incurrence	Year of Expiry		Amount Incurred		Applied in Current Year		Expired		Ending Balance
2019	2022	P	1,566,423	P	(1,566,423)	P	-	P	-
2020	2023		1,971,802		(1,355,532)		-		616,270
2021	2024		683,031		-		-		683,031
Total		P	4,221,256	P	(2,921,955)	P	-	P	1,299,301

The Company did not recognize deferred tax assets amounting to P1.3 million as of March 31, 2022 relating to MCIT and P12.7 million as of March 31, 2021 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. There was no unrecognized deferred tax assets relating to NOLCO as of March 31, 2022.

In 2022 and 2021, the Company opted to claim itemized deductions in computing for its income tax due.

20. 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 major customers whose revenue individually represented 10% or more of the total revenue.

In 2022 and 2021, 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:

		2022		2021
Mercury Drug Corporation	**P**	**79,328,429**	P	50,485,059
Getz Brothers Philippines Inc.		**85,530,517**		35,713,475
Total	**P**	**164,858,946**	P	86,198,534

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

21. Reconciliation of Liabilities Arising From Financing Activities

Presented below is the reconciliation of the Company’s liabilities arising from financing activities, which includes both cash and non-cash changes.

		Lease Liabilities (see Note 9)		**Loans Payable** (see Note 10)		**Interest Payable** (see Note 10)		**Total**
Balance as of March 31, 2021	P	-	P	48,466,000	P	8,334,097	P	56,800,097
Cash flows from financing activities								
Interest and other charges paid		-		-		-		-
Repayments of lease liabilities		-		-		-		-
Cash flows from non-financing activities								
Accrual of interest		-		-		4,550,332		4,550,332
Foreign currency translation adjustment		-		3,494,000		586,201		4,080,201
Balance as of March 31, 2022	**P**	**-**	**P**	**51,960,000**	**P**	**13,470,630**	**P**	**65,430,630**

	Lease Liabilities (see Note 9)	Loans Payable (see Note 10)	Interest Payable (see Note 10)	Total
Balance as of March 31, 2020	P 381,974	P 51,044,000	P 4,045,237	P 55,471,211
Cash flows from financing activities				
Interest and other charges paid	-	-	-	-
Repayments of lease liabilities	(390,612)	-	-	(390,612)
Cash flows from non-financing activities				
Accrual of interest	8,638	-	4,383,404	4,392,405
Foreign currency translation adjustment	-	(2,578,000)	-	(2,578,000)
Others	-	-	(94,544)	-
Balance as of March 31, 2021	P -	P 48,466,000	P 8,334,097	P 56,800,097

22. 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, 2022.

VAT

a. Output VAT

	Net Sales	Output VAT
Sale of goods		
Vatable sales	P 67,545,358	P 8,105,443
Exempt sales	103,470,234	-
	P 171,015,592	**P 8,105,443**

The Company's exempt sales/receipts were determined pursuant to Section 109, *VAT Exempt Transactions*, of the 1997 National Internal Revenue Code.

The tax bases are included as part of Net Sales in the 2022 statement of comprehensive income. The tax bases are based on the Company's gross receipts for the year; hence, these may not be the same as the amounts of revenues reported in the 2022 statement of comprehensive income.

There is no outstanding VAT payable as of March 31, 2022. Output VAT paid during the year amounted to P3,420,598.

b. Input VAT

Balance at April 1, 2021	P 363,667
Current transactions	
Importation of goods other than capital goods	5,657,924
Domestic purchases of services	1,900,798
Domestic purchases of goods	918,773
Total	8,841,162
Applied against output VAT	(4,684,845)
Balance at March 31, 2022	**P 4,156,317**

Taxes on Importation

As of March 31, 2022, the total landed cost of the Company's imported inventory for use in business amounted to P47,149,368. This includes customs duties and tariff fees totaling P2,260,134.

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 2022 statement of comprehensive income.

Business tax	P	831,370
Documentary stamp tax		2,060
Others		18,244
Total	**P**	**851,674**

Documentary stamp tax paid during the year relates to the execution of the renewal of lease agreement.

Excise Taxes

As of March 31, 2022, the Company did not have any transaction which is subject to excise tax.

Withholding Taxes

Details of withholding taxes for the year are as follows:

Withholding taxes on compensation and benefits	P	2,804,467
Expanded withholding taxes		1,469,543
Total	**P**	**4,274,010**

There were no transactions subject to final withholding taxes during the year.

Tax Assessment and Cases

As at March 31, 2022, the Company paid final deficiency tax assessments with the BIR amounting to P3,001,737, inclusive of interests, for tax assessments related to expanded withholding taxes and income taxes for taxable year 2019. This is presented as part of Fines and penalties under Other Operating Expenses in the 2022 statement of comprehensive income.