# TORRENT PHARMA PHILIPPINES, INC.

(A Wholly-Owned Subsidiary of Torrent Pharmaceuticals Ltd., an Indian Company)

**FINANCIAL STATEMENTS**
**March 31, 2020 and 2019**

With Independent Auditors' Report

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# REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
**Torrent Pharma Philippines, Inc.**
Unit 3 & 4, 34th Floor Zuellig Building
Makati Avenue corner Paseo de Roxas
Makati City

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of Torrent Pharma Philippines, Inc. (the "Company"), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

*Basis for Opinion*

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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.

*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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs 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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 30 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**R.G. MANABAT & CO.**

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CPA License No. 108798
SEC Accreditation No. PA-A-874-A, Group A, valid until June 30, 2020
Tax Identification No. 225-454-652
BIR Accreditation No. 08-001987-35-2018
Issued September 20, 2018; valid until September 19, 2021
PTR No. MKT 8116789
Issued January 2, 2020 at Makati City

May 11, 2020
Makati City, Metro Manila

**TORRENT PHARMA PHILIPPINES, INC.**
**(A Wholly-Owned Subsidiary of Torrent Pharmaceuticals Ltd., an Indian Company)**

# STATEMENTS OF FINANCIAL POSITION

| | | March 31 | |
|---|---|---|---|
| | *Notes* | **2020** | 2019 |
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash | *6* | **P51,521,299** | P91,045,862 |
| Trade and other receivables | *7* | **452,739,242** | 353,072,338 |
| Inventories | *5, 8* | **154,546,473** | 188,363,120 |
| Prepayments and other current assets | *9* | **23,984,265** | 12,546,441 |
| **Total Current Assets** | | **682,791,279** | 645,027,761 |
| **Noncurrent Assets** | | | |
| Property and equipment - net | *10* | **3,374,285** | 4,470,024 |
| Right of use asset - net | *13* | **9,429,452** | - |
| Deferred tax assets - net | *24* | **74,949,255** | 92,004,293 |
| Rental security deposits | *13, 26* | **1,948,781** | 1,908,781 |
| **Total Noncurrent Assets** | | **89,701,773** | 98,383,098 |
| | | **P772,493,052** | P743,410,859 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | *11* | **P206,585,768** | P167,315,015 |
| Derivative financial liabilities | *14, 26* | **27,872** | - |
| Finance lease liabilities - current | *5, 13* | **5,400,236** | - |
| Due to a related party | *12* | **224,792,432** | 326,064,585 |
| Income tax payable | | **-** | 3,427,065 |
| **Total Current Liabilities** | | **436,806,308** | 496,806,665 |
| **Noncurrent Liabilities** | | | |
| Retirement benefit obligation | *25* | **37,231,100** | 25,217,500 |
| Finance lease liabilities - net of current portion | *5, 13* | **3,052,660** | - |
| **Total Noncurrent Liabilities** | | **40,283,760** | 25,217,500 |
| | | **477,090,068** | 522,024,165 |
| **Equity** | | | |
| Share capital | *15* | **38,546,400** | 38,546,400 |
| Reserve for retirement benefit obligation - net | *25* | **483,350** | 4,921,420 |
| Retained earnings | *15* | **256,373,234** | 177,918,874 |
| **Total Equity** | | **295,402,984** | 221,386,694 |
| | | **P772,493,052** | P743,410,859 |

*See Notes to the Financial Statements.*

## TORRENT PHARMA PHILIPPINES, INC.
## (A Wholly-Owned Subsidiary of Torrent Pharmaceuticals Ltd., an Indian Company)

## STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended March 31 | |
|---|---|---|---|
| | ***Notes*** | **2020** | 2019 |
| **SALES** | *16* | **P1,073,101,289** | P935,266,661 |
| **COST OF SALES** | *17* | **529,434,073** | 524,122,274 |
| **GROSS PROFIT** | | **543,667,216** | 411,144,387 |
| **OTHER INCOME** | *6, 18* | **199,078** | 198,004 |
| | | **543,866,294** | 411,342,391 |
| **OPERATING EXPENSES** | *19* | **425,069,468** | 420,421,487 |
| **OTHER EXPENSES** | *20* | **2,581,236** | 1,835,922 |
| | | **427,650,704** | 422,257,409 |
| **PROFIT (LOSS) BEFORE TAX** | | **116,215,590** | (10,915,018) |
| **INCOME TAX EXPENSE (BENEFIT)** | *23* | **37,761,230** | (689,818) |
| **NET PROFIT (LOSS) FOR THE YEAR** | | **78,454,360** | (10,225,200) |
| **OTHER COMPREHENSIVE LOSS** | | | |
| ***Item that will not be reclassified subsequently to profit or loss*** | | | |
| Remeasurement loss on retirement benefit obligation - net of tax | *25* | **(4,438,070)** | (54,250) |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | | **P74,016,290** | (P10,279,450) |

*See Notes to the Financial Statements.*

**TORRENT PHARMA PHILIPPINES, INC.**
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## STATEMENTS OF CHANGES IN EQUITY

| | ***Notes*** | **Share Capital** (Note 15) | **Reserve for Retirement Benefit Obligation** - Net | **Retained Earnings** (Note 15) | **Total** |
|---|---|---|---|---|---|
| Balance, March 31, 2018 | | P38,546,400 | P4,975,670 | P188,144,074 | P231,666,144 |
| Loss for the year | | - | - | (10,225,200) | (10,225,200) |
| Other comprehensive loss: | | | | | |
| Remeasurement loss on retirement benefit obligation - net of tax | *25* | - | (54,250) | - | (54,250) |
| Total Comprehensive Loss | | - | (54,250) | (10,225,200) | (10,279,450) |
| Balance, March 31, 2019 | | 38,546,400 | 4,921,420 | 177,918,874 | 221,386,694 |
| Income for the year | | - | - | 78,454,360 | 78,454,360 |
| Other comprehensive loss: | | | | | |
| Remeasurement loss on retirement benefit obligation - net of tax | *25* | - | (4,438,070) | - | (4,438,070) |
| Total Comprehensive Income (Loss) | | - | (4,438,070) | 78,454,360 | 74,016,290 |
| **Balance, March 31, 2020** | | **P38,546,400** | **P483,350** | **P256,373,234** | **P295,402,984** |

*See Notes to the Financial Statements.*

**TORRENT PHARMA PHILIPPINES, INC.**
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## STATEMENTS OF CASH FLOWS

| | | Years Ended March 31 | |
|---|---|---|---|
| | ***Note*** | **2020** | 2019 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit (loss) before tax | | **P116,215,590** | (P10,915,018) |
| Adjustments for: | | | |
| Provision for refund liability | *11* | **54,510,805** | 82,800,655 |
| Write-down of inventories to net realizable value | *5, 8, 17* | **22,667,007** | 79,245,078 |
| Depreciation | *10, 13, 19* | **9,423,244** | 1,741,340 |
| Retirement benefit costs | *19, 21, 25* | **5,673,500** | 4,877,500 |
| Unrealized foreign exchange gain - net | *20* | **(2,625,422)** | (3,458,916) |
| Interest expense on lease liabilities | *13, 20* | **785,074** | - |
| Interest income | *6, 18* | **(199,078)** | (198,004) |
| Operating cash flows before working capital changes | | **206,450,720** | 154,092,635 |
| Decrease (increase) in: | | | |
| Trade and other receivables | | **(99,666,904)** | (73,405,733) |
| Inventories | | **11,149,640** | (117,994,199) |
| Prepayments and other current assets | | **(3,433,210)** | (63,523) |
| Derivative financial assets | | **-** | 12,445 |
| Increase (decrease) in: | | | |
| Trade and other payables | | **(12,737,236)** | (14,622,817) |
| Derivative financial liabilities | | **27,872** | - |
| Due to a related party | | **(101,106,235)** | 116,466,405 |
| Cash generated from operations | | **684,647** | 64,485,213 |
| Interest received | | **199,078** | 198,004 |
| Income taxes paid | | **(30,235,841)** | (26,718,559) |
| Net cash flows generated from (used in) operating activities | | **(29,352,116)** | 37,964,658 |
| **CASH FLOW FROM AN INVESTING ACTIVITIES** | | | |
| Additions to property and equipment | *10* | **(425,517)** | (301,831) |
| Payment of deposits | | **(40,000)** | - |
| Net cash flows generated used in investing activities | | **(465,517)** | (301,831) |
| **CASH FLOW FROM AN FINANCING ACTIVITY** | | | |
| Payments of lease liabilities | *13* | **(9,663,618)** | - |
| **NET INCREASE (DECREASE) IN CASH** | | **(39,481,251)** | 37,662,827 |
| **EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH** | | **(43,312)** | 4,597 |
| **CASH AT BEGINNING OF YEAR** | | **91,045,862** | 53,378,438 |
| **CASH AT END OF YEAR** | *6* | **P51,521,299** | P91,045,862 |

*See Notes to the Financial Statements.*

# TORRENT PHARMA PHILIPPINES, INC.
# (A Wholly-Owned Subsidiary of Torrent Pharmaceuticals Ltd., an Indian Company)

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Corporate Information

Torrent Pharma Philippines, Inc. (the "Company") was registered with the Philippine Securities and Exchange Commission (SEC) on July 22, 2004 primarily to engage in the business of marketing and wholesale distribution of pharmaceutical, cosmetics and chemical products.

The Company is a wholly-owned subsidiary of Torrent Pharmaceuticals Ltd. (the "Parent Company"), a company organized in Republic of India, which is also the ultimate parent company.

The Company's registered and principal office is located at Units 3 & 4, 34th Floor Zuellig Building, Makati Avenue corner Paseo de Roxas, Makati City.

## 2. Financial Reporting Framework and Basis of Preparation and Presentation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

This is the first set of the Company's financial statements in which PFRS 16, *Leases* has been applied. Changes to significant accounting policies are described in Note 3.

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on May 11, 2020.

Basis of Measurement

The financial statements of the Company have been prepared on a historical cost basis, except for derivative financial instruments at fair value through profit or loss and defined benefit retirement liability at present value of the defined benefit obligation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that will be received to sell an asset or will be paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis.

In addition, for financial reporting purposes, fair value measurements are categorized into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

<u>Functional and Presentation Currency</u>
These financial statements are presented in Philippine Peso, which is the Company's functional currency, the currency of the primary economic environment in which the Company operates. All financial information is rounded off to the nearest Peso, except when otherwise indicated.

## 3. Adoption of New and Amended Standards and Interpretation

<u>Adoption of New or Amended Standards and Interpretations</u>
The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

The Company has adopted the following PFRS starting April 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Company's financial statements.

- *PFRS 16, Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

  Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio- level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were also introduced.

  The Company has adopted PFRS 16 using the modified retrospective approach and recognized leases on the reporting date as at April 1, 2019. Accordingly, the comparative information has not been restated and is presented, as previously reported, under PAS 17 and related interpretations.

As a lessee, the Company recognized right-of-use assets and lease liabilities for leases classified as operating leases under PAS 17, except for short-term leases and leases of low-value assets. The right-of-use assets are measured based on the carrying amount as if PFRS 16 had always been applied, discounted using the incremental borrowing rate at the date of initial application. Lease liabilities are measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate ranging from 5.69% to 5.76% as at April 1, 2019.

The Company used the following practical expedients for leases previously classified as operating leases under PAS 17:

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Right-of-use assets and lease liabilities are presented separately in the statements of financial position.

- *Philippine Interpretation IFRIC-23, Uncertainty over Income Tax Treatments.* The interpretation clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Company's chosen tax treatment. If it is not probable that the tax authority will accept the Company's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

  The interpretation also requires the reassessment of judgements and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

  The interpretation is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The interpretation can be initially applied retrospectively applying PAS 8, if possible without the use of hindsight, or retrospectively with the cumulative effect recognized at the date of initial application without restating comparative information.

  The Company applies significant judgement in identifying uncertainties over income tax treatments. Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions. The Company determined, based on its assessment, that it is probable that its income tax treatments will be accepted by the taxation authorities. The interpretation did not have an impact on the financial statements of the Company.

- Prepayment Features with Negative Compensation (Amendments to PFRS 9, *Financial Instrument*). The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

- *Plan Amendment, Curtailment or Settlement (Amendments to PAS 19, Employee Benefits).* The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity now uses updated actuarial assumptions to determine its current service cost and net interest for the period. The effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

- *Annual Improvements to* PFRS 2015 - 2017 Cycle contains changes to four standards of which only the following is applicable to the Company:

  - *Income tax consequences of payments on financial instruments classified as equity (Amendments to PAS 12)*. The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income or equity.

    The amendments are effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted. When an entity first applies those amendments, it shall apply them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

<u>New and Amended Standards and Framework Not Yet Adopted</u>
A number of new and amended standards and framework are effective for annual periods beginning after April 1, 2019 and have not been applied in preparing the Company's financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the financial statements.

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability, and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

  Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

The amendments are effective for annual periods beginning on or after January 1, 2020.

- Definition of a Business (Amendments to PFRS 3, *Business Combinations*). The amendments narrowed and clarified the definition of a business. The amendments also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments: (a) confirmed that a business must include inputs and a process, and clarified that the process must be substantive and the inputs and process must together significantly contribute to creating outputs; (b) narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and (c) added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets.

  The amendments apply to business combinations and asset acquisitions in annual reporting periods beginning on or after January 1, 2020, with early application permitted.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term ‘could influence’ with ‘could reasonably be expected to influence’; (b) including the concept of ‘obscuring information’ alongside the concept of ‘omitting’ and ‘misstating’ information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of what is considered material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020, with early application permitted.

## 4. Summary of Significant Accounting Policies

Financial Instruments

*Recognition and Initial Measurement.* A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset (unless a trade receivable without a significant financing component) or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as at fair value through profit or loss (FVTPL), includes transaction costs. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

*Classification and Subsequent Measurement*

The Company classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and FVTPL. The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Company for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Company changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Company manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Company considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Company considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Company considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVTPL.

The Company has no financial assets classified at FVOCI as at March 31, 2020 and 2019.

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

The Company's cash, trade and other receivables and rental security deposits are included under this category.

*Financial Assets at FVTPL.* All financial assets not classified as measured at amortized cost or FVOCI are measured at FVTPL. This includes derivative financial assets that are not designated as cash flow hedge. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

At initial recognition, the Company may irrevocably designate a financial asset as at FVTPL if the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on different basis.

The Company carries financial assets at FVTPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Changes in fair value and realized gains or losses are recognized in profit or loss.

The Company's derivative assets are classified under this category.

Financial Liabilities

*Classification and Subsequent Measurement*

The Company classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

*Financial Liabilities at FVPL.* Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

The Company carries financial liabilities at FVPL using their fair values and reports fair value changes in the statements of comprehensive income. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the statements of changes in equity. Any interest expense incurred is recognized as part of "Interest expense and other financing charges" account in the statements of comprehensive income.

The Company's derivative liabilities are classified under this category.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in "Interest expense and other financing charges" account in the statements of comprehensive income. Gains and losses are recognized in the statements of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the statements of comprehensive income.

The Company's liabilities arising from trade and other payables and lease liabilities are included under this category.

Derecognition of Financial Assets and Financial Liabilities

*Financial Assets.* A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and either: (a) has transferred substantially all the risks and rewards of the asset; or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company is required to repay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Impairment of Financial Assets
The Company recognizes a loss allowance for expected credit losses (ECL) on financial assets that are measured at amortized cost.

ECLs are probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Company under the contract and the cash flows that the Company expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate.

The Company measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company always recognizes lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, 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.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

*Credit-impaired financial assets*
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;

- a breach of contract such as a default or past due event;

- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

- the disappearance of an active market for a security because of financial difficulties; or

- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event, instead the combined effect of several events may have caused financial assets to become credit-impaired. The Company assesses whether debt instruments that are financial assets measured at amortized cost are credit-impaired at each reporting date.

*Write-off*
The Company writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

*Default*
The Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or

- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in full (without taking into account any collateral held by the Company).

Irrespective of the above analysis, the Company considers that default has occurred when a financial asset is more than 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Inventories

Initially, cost of inventories consist of all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs of purchase of inventories consist of purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to the acquisition of finished goods. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition.

Inventories are valued at lower of cost and net realizable value (NRV). Cost is determined using moving average method. NRV is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amounts of these inventories are recognized under “Cost of Sales” account in profit or loss in the period when the related revenue is recognized.

Prepayments and other current assets

Prepayments represent expenses not yet incurred but already paid. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Prepayments are classified in the statements of financial position as current assets when the cost of goods or services related to the prepayments are expected to be incurred within one year or the Company’s normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Other current assets pertain to assets which are expected to be realized within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

Property and Equipment

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At the end of each reporting period, item of property and equipment measured at cost less any subsequent accumulated depreciation and impairment losses.

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

| | |
|---|---|
| Furniture, fixtures and equipment | 3 years |
| Computers and peripherals | 3 years |
| Leasehold improvements | 5 years or lease term whichever is shorter |

Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-to-use assets are amortized on a straight-line basis over the lease term or 5 years, whichever is shorter.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Leases

*Policy Applicable from April 1, 2019*

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Company assesses whether, throughout the period of use:

- the Company has the right to obtain substantially all the economic benefits from use of the identified asset; and

- the Company has the right to direct the use of the identified asset.

The Company applied PFRS 16 using the modified retrospective approach and recognized leases on the reporting date as at April 1, 2019. In addition, it has decided to measure right-of-use assets as if the standard had been applied since the commencement date but discounted using incremental borrowing rate at the date of initial application.

The right-of-use asset is subsequently depreciated using the straight-line method from the 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 estimated useful lives of the right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise of the following:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

- amounts expected to be payable under a residual value guarantee; and

- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. The carrying amount of the lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognized in the statements of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of use assets and lease liabilities for short-term leases (i.e., lease that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets. The Company recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

*Short-term leases and leases of low-value assets*
Leases with a lease term of 12 months or less are considered short-term leases. Based on the economic substance of the underlying assets of the Company, the assets are considered low value assets.

*Policy Applicable Before April 1, 2019*
Based on management's evaluation, the lease arrangements entered into by Company as a lessee are accounted for as operating leases because the Company has determined that (a) the lessor will not transfer the ownership of the leased assets to the Company upon termination of the lease; and, (b) the lessor has not given the Company an option to purchase the asset at a price that is sufficiently lower than the fair value at the date of the option.

<u>Impairment of Non-financial Assets</u>
At the end of each reporting period, the Company assesses whether there is any indication that any of its tangible assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value-in-use. In assess ng value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Retained Earnings

Retained earnings represent accumulated profit attributable to equity holders of the Company after deducting dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Provisions and Contingent Liabilities

*Provisions*

Provisions are recognized when the Company has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation; its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

If it is no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision should be reversed.

*Contingent Liabilities*
Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized, but are disclosed only when an inflow of economic benefits is probable. When the realization of income is virtually certain, asset should be recognized.

<u>Employee Benefits</u>
*Short-term Benefits*
The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus 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.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*Post-employment Benefits*
The Company classifies its retirement benefit as defined benefit plan. Under the defined benefit plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statements of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);

- Net interest expense or  income; and

- Remeasurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item “operating expenses.” Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the Company’s statements of financial position represents the actual deficit or surplus in the Company’s defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods.

The transfer of control can occur over time or at a point in time. Revenue is recognized at a point in time unless one of the following criteria is met, in which case it is recognized over time: (a) the customer simultaneously receives and consumes the benefits as the Company performs its obligations; (b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The following specific recognition criteria must also be met before revenue is recognized:

*Sales of Goods*

Revenue from sale of goods is recognized at a point in time when control of the goods underlying the particular performance obligation is transferred to the customer. The Company generates its revenues from the sale of pharmaceutical products.

For contracts that grants the customers the right to return purchased goods or discounts, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns or discounts, which are estimated based on accumulated experience using the expected value method.

The Company recognizes a refund liability and a right to recover returned goods asset for the transfer of goods with a right to return. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

*Revenue from Other Sources*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Expense Recognition

Expense is recognized in profit or loss when there is decrease in future economic benefit related to a decrease in an asset or an increase in a liability and such can be measured reliably. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of 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 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 statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the function of expense method. Cost of sales are expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, marketing, selling and other business activities of the Company. Other expenses are costs incurred attributable to foreign exchange and bank transactions that are not directly attributable to the Company's operations.

Foreign Currency Transactions

Transactions in currencies other than the Philippine Peso are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date the fair value was determined. Gains and losses arising on retranslation are included in profit or loss.

Related Party Transactions and Relationships

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

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

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

Taxation

Income tax expense represents the sum of current tax and deferred tax expense.

*Current Tax*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the regular corporate income tax (RCIT) rate of 30% of taxable income, or the minimum corporate income tax (MCIT) rate of 2% of defined gross income, whichever is higher.

*Deferred Tax*

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the assets realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from 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.

*Current and Deferred Tax for the Year*
Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

Events After the Reporting Period
The Company identifies events after the end of the reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the Company are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

## 5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies
The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

*Determining whether a Contract Contains a Lease (Upon the Adoption of PFRS 16).* The Company uses its judgment in determining whether a contract contains a lease. At inception of a contract, the Company makes an assessment whether it has the right to obtain substantially all the economic benefits from the use of the identified asset and the right to direct the use of the identified asset.

*Determining whether an Arrangement Contains a Lease (Prior to the Adoption of PFRS 16).* The evaluation of whether an arrangement contains a lease is based on its substance. An arrangement is, or contains, a lease when the fulfillment of the arrangement depends on a specific asset or assets and the arrangement conveys the right to use the asset.

*Company as Lessee (Upon Adoption of PFRS 16) -* The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of motor vehicles that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term. Expenses relating to these leases amounted to P1.24 million in 2020 (Note 13 and 19).

*Operating Lease Commitments - Company as Lessee (Prior to the Adoption of PFRS 16)*. The Company has entered into various lease agreements as a lessee. The Company had determined that the significant risks and rewards of property leased from third parties are retained by the lessors.

Rent expense recognized in statements of comprehensive income amounted to P11.72 million in 2019 (Note 19)

*Determining the Lease Term of Contracts with Renewal Options - Company as Lessee (Upon the Adoption of PFRS 16).* The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised.

The Company has several lease contracts that include extension options. At lease commencement date, the Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew the lease by considering all relevant factors that create an economic incentive for it to exercise the renewal option. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or change in circumstances within its control.

*Estimating the Incremental Borrowing Rate (Upon the Adoption of PFRS 16).* The Company cannot readily determine the interest rate implicit in the leases. Therefore, it uses its relevant incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate, therefore, reflects what the Company would have to pay, which requires estimation when no observable rates are available and to make adjustments to reflect the terms and conditions of the lease. The Company estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to consider certain contract and entity-specific estimates.

The Company's lease liabilities amounted to P8.45 million as at March 31, 2020 (Note 13).

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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.

*Variable Consideration under Revenue.* Revenue is recognized based on the price specified in the contract, net of the estimated sales discount and returns. Accumulated experience is used to estimate and provide for the sales discount, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

It is the Company's policy to sell its products to the customer with a right of return. Accumulated experience and other relevant factors such as the Company's product shelf life expiration, which ranges from one to four years, is used to estimate such returns at the time of sale at a portfolio level (expected value method). It is highly probable that a significant reversal in the revenue recognized will not occur taking into account accumulated experience of the Company.

Variable consideration pertaining to sales discounts and returns amounted to P248.96 million and P54.51 million, respectively in 2020, and P234.63 million and P82.80 million, respectively in 2019. The Company did not recognize right to recover goods asset in relation to transfer of goods with a right to return in 2020 and 2019 since the Company believes that the goods are no longer saleable once returned.

*Write-down of Inventory.* Inventories are stated at the lower of cost and NRV. The NRV of inventories represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Write-down of inventory to NRV is recorded for damaged, expired and slow-moving inventory. While the Company believes that the estimates are reasonable and appropriate, significant changes in the assumptions used to develop the estimate may materially affect key financial measures, including gross profit, net income and inventories. Valuation of the Company's inventory could be affected by changes in customer preferences, demand for product, or changes in the buying patterns and inventory management of customers.

Total inventories recognized in the Company's statements of financial position amounted to P154.55 million and P188.36 million, which is net of the accumulated write-down of inventories to NRV of P45.52 million and P133.17 million, as at March 31, 2020 and 2019, respectively, as disclosed in Note 8.

*Deferred Tax Assets.* The Company reviews the carrying amounts at each reporting period and reduces deferred tax assets 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 assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized.

Total deferred tax assets recognized in the statements of financial position as at March 31, 2020 and 2019 amounted to P74.95 million and P92.00 million, respectively, as disclosed in Note 24.

*Post-employment Benefits.* The determination of the cost of retirement obligation is dependent on the selection of certain assumptions used by the independent actuary in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increase. Actual results that differ from the assumptions are directly charged to other comprehensive income, and therefore generally affect the equity and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligation.

As at March 31, 2020 and 2019, the present value of retirement benefit obligation amounted to P37.23 million and P25.22 million, respectively, as disclosed in Note 25. Accordingly, the amount of retirement benefit cost recognized in statements of comprehensive income in 2020 and 2019 amounted to P5.67 million and P4.88 million, respectively, as disclosed in Notes 19 and 25.

## 6. Cash

Cash at the end of the reporting period as shown in the statements of cash flows can be reconciled to the related items in the statements of financial position as follows:

| | **2020** | 2019 |
|---|---|---|
| Cash on hand | **P921,005** | P916,974 |
| Cash in banks | **50,600,294** | 90,128,888 |
| | **P51,521,299** | P91,045,862 |

Cash in banks earned an average interest of 0.25% and 0.75% in 2020 and 2019, respectively. Interest earned amounted to P199,078 and P198,004 in 2020 and 2019, respectively, as presented in the statements of comprehensive income and as disclosed in Note 18.

## 7. Trade and Other Receivables

The Company's trade and other receivables consists of:

| | ***Note*** | **2020** | 2019 |
|---|---|---|---|
| Trade receivables | *26* | **P451,128,393** | P350,840,152 |
| Others | | **1,610,849** | 2,232,186 |
| | *26* | **P452,739,242** | P353,072,338 |

The credit period on sale of goods ranges from 62 to 90 days from end of month of invoice date. No interest is charged for past due accounts.

With the adoption of PFRS 15, the allowance for sales returns is now classified as "Refund liability" presented under Trade and Other Payables, as disclosed in Note 11.

Provision for sales returns are estimated primarily on the basis of historical experience, market conditions, and provided for in the year of sale as a reduction from revenue.

Other receivables, which consist mainly of receivables from various parties for transactions other than sale of goods, are non-interest bearing and generally have terms of 30 to 45 days.

In determining the recoverability of the trade receivables, the Company considers any change in the credit quality of the receivables from the date credit was initially granted up to the end of the reporting period. Accordingly, management believes that there is no allowance for doubtful accounts required.

## 8. Inventories

Details of the Company's inventories are as follows:

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| Finished goods | | **P152,669,466** | P172,622,894 |
| Goods in-transit | | **1,877,007** | 15,740,226 |
| | *5, 17* | **P154,546,473** | P188,363,120 |

Movements in the accumulated balance of write-down on inventories to NRV are as follows:

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| Balance, April 31 | | **P133,165,281** | P92,727,102 |
| Inventory written-off | | **(110,317,240)** | (38,806,899) |
| Write-down during the year | *17* | **22,667,007** | 79,245,078 |
| Balance, March 31 | *5* | **P45,515,048** | P133,165,281 |

The cost of inventories recognized as an expense amounted to P529.43 million and P524.12 million in 2020 and 2019, respectively, as disclosed in Note 17.

## 9. Prepayments and Other Current Assets

| | *Note* | 2020 | 2019 |
|---|---|---|---|
| Prepaid taxes | | **P17,231,801** | P5,190,161 |
| Advance rent | *13, 22* | **3,202,802** | 3,448,943 |
| Advances to employees | | **2,920,140** | 2,320,078 |
| Prepaid insurance | | **132,183** | 121,348 |
| Others | | **497,339** | 1,465,911 |
| | | **P23,984,265** | P12,546,441 |

Other prepayments include communication, trainings, transportation and certain employee benefits.

## 10. Property and Equipment - net

| | Note | Furniture, Fixture and Equipment | Computers and Peripherals | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| April 1, 2018 | | P3,358,662 | P3,040,976 | P4,873,010 | P11,272,648 |
| Additions | | 80,224 | 221,607 | - | 301,831 |
| March 31, 2019 | | 3,438,886 | 3,262,583 | 4,873,010 | 11,574,479 |
| Additions | | - | 425,517 | - | 425,517 |
| **March 31, 2020** | | **3,438,886** | **3,688,100** | **4,873,010** | **11,999,996** |
| **Accumulated Depreciation** | | | | | |
| April 1, 2018 | | 876,669 | 2,555,014 | 1,931,432 | 5,363,115 |
| Depreciation | *19* | 366,138 | 400,600 | 974,602 | 1,741,340 |
| March 31, 2019 | | 1,242,807 | 2,955,614 | 2,906,034 | 7,104,455 |
| Depreciation | *19* | 309,916 | 236,738 | 974,602 | 1,521,256 |
| **March 31, 2020** | | **1,552,723** | **3,192,352** | **3,880,636** | **8,625,711** |
| **Carrying Amount** | | | | | |
| March 31, 2019 | | P2,196,079 | P306,969 | P1,966,976 | P4,470,024 |
| **March 31, 2020** | | **P1,886,163** | **P495,748** | **P992,374** | **P3,374,285** |

## 11. Trade and Other Payables

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Accrued expenses | **P94,322,316** | P93,330,789 |
| Refund liability | **75,559,429** | 58,816,365 |
| Trade payable | **31,243,269** | 8,221,068 |
| Output value-added tax (VAT) - net | **2,673,432** | 3,886,485 |
| Withholding taxes payable | **1,683,744** | 2,188,519 |
| Government payables | **691,463** | 600,490 |
| Other payables | **412,115** | 271,299 |
| | **P206,585,768** | P167,315,015 |

Trade payables usually become due for payment 30 or 60 days upon invoice date. Output VAT is net of input VAT of P6,240,284 and P4,433,269 in 2020 and 2019, respectively.

Details of accrued expenses are shown below:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Provision for sales discount | | **P65,978,148** | P63,735,000 |
| Salary and incentives | | **11,640,745** | 10,385,085 |
| 13th month pay | | **1,654,661** | 1,640,745 |
| Guarantee fee | *12* | **1,084,685** | 41 |
| Handling fees | | **750,000** | 750,000 |
| Other accruals | | **13,214,077** | 16,819,918 |
| | | **P94,322,316** | P93,330,789 |

Other accruals consist of rent, advertising, employee related expenses, professional fees, utilities and subscription expenses.

Refund liability pertains to provision made for sales returns representing estimated returns for sales in accordance with the Company's sales returns policy. Movements in the account are as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance, April 1 | **P58,816,365** | P52,609,845 |
| Actual returns | **(37,767,741)** | (76,594,135) |
| Provision | **54,510,805** | 82,800,655 |
| Balance, March 31 | **P75,559,429** | P58,816,365 |

## 12. Related Party Transactions

In the normal course of business, the Company has transactions with its parent company that is considered to be related parties under PAS 24, *Related Party Disclosures.*

The summary of the Company's transactions and outstanding balances with its parent company as at and for the years ended March 31, 2020 and 2019 are as follows:

| | **Amounts of Transactions During the Year** | | **Outstanding Payable Balances** | | | |
|---|---|---|---|---|---|---|
| **Category** | **2020** | 2019 | **2020** | 2019 | **Terms** | **Condition** |
| ***Parent Company*** | | | | | | |
| Purchases | P436,735,742 | P516,759,287 | P224,792,432 | P326,064,585 | Payable on demand | Unsecured |
| Guarantee fee | 1,084,685 | - | 1,084,685 | 41 | No fixed repayment terms | Unsecured |

Guarantee fee pertains to cross charges by the Parent Company for the bank guarantee of USD3 million credit facility. Accrued guarantee fee and guarantee fee are disclosed in Notes 11.

Remuneration of Key Management Personnel
The total remuneration of key management personnel which consists of short-term employee benefits amounted to P6,520,485 and P8,125,039 in 2020 and 2019, respectively, and long-term employee benefits amounted to P225,900 and P189,262 in 2020 and 2019, respectively.

## 13. Leases

*Upon Adoption of PFRS 16*
The Company leases office and parking space, and motor vehicles. The leases typically run for a period of 1 to 3 years. Some leases provide an option to renew the lease at the end of the lease term and are being subjected to reviews to reflect current market rentals.

The Company also leases motor vehicles with lease terms of 12 months or less and leases equipment with low value. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

The movements in right-of-use assets are as follows:

| | Office and parking space | Motor Vehicles | Total |
|---|---|---|---|
| **Cost** | | | |
| April 1, 2019 | P9,395,718 | P6,945,585 | P16,341,303 |
| Additions | - | 990,137 | 990,137 |
| **March 31, 2020** | **9,395,718** | **7,935,722** | **17,331,440** |
| **Accumulated Depreciation** | | | |
| April 1, 2019 | - | - | - |
| Depreciation | 6,632,272 | 1,269,715 | 7,901,987 |
| **March 31, 2020** | **6,632,272** | **1,269,715** | **7,901,987** |
| **Carrying Amount** | | | |
| **March 31, 2020** | **P2,763,446** | **P6,666,007** | **P9,429,453** |

The breakdown of lease liabilities is as follows:

| | March 31, 2020 |
|---|---|
| Current portion | **P5,400,236** |
| Noncurrent portion | **3,052,660** |
| | **P8,452,896** |

The maturity analysis of lease payments are as follows:

| | 2020 |
|---|---|
| Less than one year | **P5,400,236** |
| One to five years | **3,052,660** |
| **Total lease payments** | **P8,452,896** |

The Company recognized interest expense on lease liabilities amounting to P0.79 million in 2020 (Note 20).

There were no leases with residual value guarantees or leases not yet commenced to which the Company is committed. The expenses relating to leases with the contract term of less than 12 months and leases of low-value assets in 2020 amounted to P1.24 million as disclosed in Note 5.

The Company's total cash outflows for leases amounted to P9.66 million in 2020.

*Prior to the Adoption of PFRS 16*
The Company entered into various operating lease agreements with local companies as follows:

a. Lease of its new office space commencing on September 1, 2015 to August 30, 2020. The security deposit, which is equivalent to three months gross rental, amounted to P1,686,751 as at March 31, 2020 and 2019. The advance rent, which is equivalent to three months net rental, amounted to P2,859,872 and P3,104,674 as at March 31, 2020 and 2019, respectively.

b. Lease of parking spaces located at its new office commencing on September 1, 2015 to August 30, 2020. Both security deposit and advance rent amounted to P72,930 as at March 31, 2020 and 2019.

c. Lease of a residential unit for the Country Manager commencing on July 16, 2017 to July 15, 2018. The lease is renewed for another one year which commences from July 16, 2018 and ended July 15, 2019. The security deposit applicable for this contract amounted to P140,000 has been refunded.

d. Lease of a new residential unit for the Country Manager commences on June 14, 2019 to June 13, 2020. Advance rent amounted to P270,000 as at March 31, 2020 and 2019, respectively. Security deposit of P180,000 equivalent to two (2) months rental is paid to the Lessor.

e. Lease of vehicles used by Company employees, which is renewable every year. Advance rent as at March 31, 2020 and 2019 amounted to nil and P1,339, respectively.

f. Lease of office equipment for one year with security deposit amounting to P9,100 as at March 31, 2020 and 2019.

Rent expense charged to operations in relation to the above lease agreements amounted to P3,290,529 and P11,718,650 in 2020 and 2019, respectively, as disclosed in Note 19.

Total rental security deposits amounted to P1,948,781 as at March 31, 2020 and 2019 as presented in the statements of financial position.

The total advanced rental amounted to P3,202,802 and P3,448,943 as a March 31, 2020 and 2019, respectively, as disclosed in Note 9.

At the end of the reporting period, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | **2020** | 2019 |
|---|---|---|
| Not later than one year | **P243,628** | P10,428,658 |
| Later than one year but not later than five year | **-** | 3,698,149 |
| | **P243,628** | P14,126,807 |

## 14. Derivative Financial Instruments

Currency Derivatives
The Company utilizes currency derivatives to hedge future payments in foreign currency.

The Company is a party to foreign currency forward contracts in the management of its exchange rate risk exposures. The instruments purchased are denominated in the currencies of the Company's future payables.

As at March 31, 2020 and 2019, total notional amounts of outstanding forward foreign exchange contracts that the Company has committed are shown below:

| | Average Exchange Rate | | Foreign Currency | | Contract Value | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| **Outstanding Contracts** | | | | | | | | |
| Three months and less | **P51.39** | $ - | $1,622,515 | $ - | 83,145,317 | P - | **P11,501** | P - |
| More than three months | **51.39** | - | 2,744,607 | - | 141,322,798 | - | **16,371** | - |
| | | | $4,367,122 | $ - | 224,468,115 | P - | **P27,872** | P - |

Changes in the fair value of currency derivatives amounting to P27,872 and nil in 2020 and 2019, respectively, have been charged to profit or loss as part of foreign exchange loss - net, as disclosed in Note 20.

## 15. Equity

*Share Capital*

The details of the Company's authorized, issued and outstanding share capital as at March 31, 2020 and 2019 are as follows:

| | Number of Shares | Share Capital |
|---|---|---|
| Authorized at P200 par value: | | |
| Balance at March 31, 2020 and 2019 | **192,732** | **P38,546,400** |
| Issued and fully paid and outstanding at P200 par value: | | |
| Balance at March 31, 2020 and 2019 | **192,732** | **P38,546,400** |

*Retained Earnings*

In accordance with Section 43 of the Corporation Code of the Philippines, stock corporations are prohibited from retaining surplus profits in excess of one hundred percent (100%) of their paid-up capital, except when justified by any reasons mentioned in the Code.

As at March 31, 2020 and 2019, the unrestricted retained earnings of the Company is still in excess of the paid-up capital by P143,445,053 and P65,333,003, after preparing the reconciliation in accordance with SEC Memorandum Circular No. 11, Guidelines on the Determination of Retained Earnings Available for Dividend Declaration. To address the excess retained earnings over paid-up capital, management plans to appropriate its excess retained earnings for future business expansion.

*Improperly Accumulated Retained Earnings*

The BIR has consistently ruled that in cases where the Philippine entity is a subsidiary of a publicly-held and traded corporation, its wholly-owned subsidiary is likewise considered a publicly-held corporation and, therefore, exempt from the imposition of improperly accumulated retained earnings.

## 16. Sales

The Company generates its revenues from the sale of pharmaceutical products. Sales for 2020 and 2019 amounted to P1,073.10 million and P935.27 million, respectively.

## 17. Cost of Sales

Details of the Company's cost of sales are as follows:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Inventory, beginning | *8* | **P188,363,120** | P149,613,999 |
| Purchases | | **495,617,426** | 562,871,395 |
| Total goods available for sale | | **683,980,546** | 712,485,394 |
| Less: Inventory, end | *8* | **154,546,473** | 188,363,120 |
| | *8* | **P529,434,073** | P524,122,274 |

Cost of sales includes write-down of inventories to NRV amounting to P22.67 million and P79.25 million in 2020 and 2019, respectively, as disclosed in Note 8.

## 18. Other Income

Other income consists of interest income amounting to P199,078 and P198,004 in 2020 and 2019, respectively, as disclosed in Note 6.

## 19. Operating Expenses

The operating expenses consist of:

| | *Note* | **2020** | 2019 |
|---|---|---|---|
| Advertising, marketing, and promotion | | **P150,119,345** | P138,560,822 |
| Salaries and wages | *21* | **115,524,106** | 118,128,365 |
| Travel and accommodation | | **69,364,340** | 66,710,758 |
| Other short-term employee benefits | *21* | **17,992,004** | 18,207,597 |
| Communication, light, and water | | **11,886,120** | 12,171,922 |
| Handling fee | | **10,577,662** | 8,432,628 |
| Depreciation | *10, 13* | **9,423,244** | 1,741,340 |
| Taxes and licenses | | **7,856,524** | 7,600,836 |
| Retirement benefit cost | *21, 25* | **5,673,500** | 4,877,500 |
| Training and recruitment | | **5,132,170** | 6,634,258 |
| Professional fee | | **4,071,315** | 7,856,001 |
| Books, periodicals, and subscription | | **2,998,625** | 4,815,862 |
| Rent expense | *5, 13* | **1,235,190** | 11,718,650 |
| Research and development | | **534,185** | 3,336,902 |
| Miscellaneous | | **12,681,138** | 9,628,046 |
| | | **P425,069,468** | P420,421,487 |

Miscellaneous include insurance, computer maintenance, entertainment and representation, events and promotions, supplies and others.

Short term employee benefits like overtime and incentives pay amounting to P3.73 million and P4.52 million for March 31, 2020 and 2019, respectively are reclassified to salaries and wages to align with alpha list reporting being submitted to internal revenue office.

## 20. Other Expenses

The Company's other expense consist of:

| | | 2020 | 2019 |
|---|---|---|---|
| Foreign exchange loss (gain) - net | | **(P2,625,422)** | P356,031 |
| Bank charges | | **1,823,792** | 1,479,891 |
| Guarantee fee | | **1,080,984** | - |
| Interest expense on lease liabilities | *13* | **785,074** | - |
| Others | | **1,516,808** | - |
| | | **P2,581,236** | P1,835,922 |

## 21. Employee Benefits

Aggregate remuneration comprised of the following:

| | ***Note*** | 2020 | 2019 |
|---|---|---|---|
| Short-term employee benefits | *19* | **P133,516,110** | P136,335,962 |
| Post-employment benefits | *21, 25* | **5,673,500** | 4,877,500 |
| | | **P139,189,610** | P141,213,462 |

## 22. Contract and Agreement

The Company has an existing distribution agreement with Metro Drug Incorporated (a local distribution and logistics company). Contract period is from April 1, 2005 to March 31, 2006. The contract was renewed for another period beginning April 1, 2008 to March 31, 2012 and was further extended until March 31, 2017. The parties then agreed to extend the agreement for another 2.5 (two and a half) years from April 1, 2017 to September 30, 2019. Thereafter, the agreement will automatically extend for another 6 months ending March 31, 2020. The contract sets forth the following terms and conditions:

a. To appoint the local drug company as the exclusive consignee, seller and distributor of the Company's products.

b. The Company shall sell the products to the distributor at the product price less a specified margin plus VAT. On the other hand, the distributor shall sell the products at product prices plus any and all sales taxes, goods and service taxes, VAT and any other taxes of similar nature.

c. Title to the goods shall pass from the Company to the distributor on the earlier of:

    i. The point in time immediately preceding delivery of the goods by the distributor to a customer; or

    ii. Upon the Company receiving full payment for the goods; and subject to the foregoing, the distributor shall have no right or interest therein otherwise than as a bailee thereof.

d. The distributor shall permit the Company's duly authorized agents to conduct inspections and take inventories of the products in the distributor's possession from time to time. In the event that any such inspections or inventories cannot be numerically reconciled within a reasonable time by an independent auditor to be appointed by the parties with the delivery receipts relating to the deliveries of the products as to the numbers of such products which ought to be in the distributor's possession, the distributor shall be deemed to have purchased products in such quantities representing the shortfall of such products in the distributor's possession.

## 23. Income Taxes

Components of income tax expense (benefit) are as follows:

| | ***Note*** | **2020** | 2019 |
|---|---|---|---|
| Current tax | | **P18,804,162** | P19,483,020 |
| Deferred tax | *24* | **18,957,068** | (20,172,838) |
| | | **P37,761,230** | (P689,818) |

A numerical reconciliation of income tax expense (benefit) and the product of accounting profit (loss) multiplied by 30% in 2020 and 2019 as follows:

| | **2020** | 2019 |
|---|---|---|
| Profit (loss) before tax | **P116,215,590** | (P10,915,018) |
| Tax at statutory rate | **P34,864,677** | (P3,274,505) |
| Tax effect of expenses (income) that are not deductible (taxable): | | |
| Non-deductible expenses and interest | **2,541,098** | 2,344,003 |
| Inventory write-off | **415,177** | 300,085 |
| Interest income subjected to final tax | **(59,722)** | (59,401) |
| | **P37,761,230** | (P689,818) |

## 24. Deferred Income Taxes

The following are the composition and analysis of deferred taxes recognized by the Company:

| | 2018 | Profit or Loss | Other Comprehensive Income | **2019** | Profit or Loss | Other Comprehensive Income | **2020** |
|---|---|---|---|---|---|---|---|
| **Deferred Tax Assets** | | | | | | | |
| Allowance for sales returns | **P15,782,954** | P1,861,956 | P - | **P17,644,910** | P5,022,920 | P - | **P22,667,830** |
| Provision for sales discount | **13,322,398** | 5,798,102 | - | **19,120,500** | 672,944 | - | **19,793,444** |
| Write-down of inventories to NRV | **27,818,131** | 12,131,453 | - | **39,949,584** | (26,295,070) | - | **13,654,515** |
| Retirement benefit obligation | **6,078,750** | 1,463,250 | 23,250 | **7,565,250** | 1,702,050 | 1,902,030 | **11,169,330** |
| Provisions for various expenses | **9,560,396** | (798,672) | - | **8,761,723** | (714,921) | - | **8,046,802** |
| Right of use asset | **-** | - | - | - | 2,370,596 | - | **2,370,596** |
| Unrealized foreign exchange loss (gain) - net | **(754,424)** | (283,251) | - | **(1,037,675)** | 947,976 | - | **(89,699)** |
| Finance Lease Liability | **-** | - | - | - | (2,663,563) | - | **(2,663,563)** |
| | **P71,808,205** | P20,172,838 | P23,250 | **P92,004,293** | (P18,957,068) | P1,902,030 | **P74,949,255** |

## 25. Retirement Benefit Cost

Republic Act 7641 (RA 7641) provides for the minimum retirement pay to qualified private sector employees in the Philippines. Benefits due under RA 7641 are accounted for as defined benefit plan under PAS 19R. However, there are instances when an employer establishes a defined contribution plan and does not have an equivalent defined benefit plan covering the benefits required under RA 7641.

An employee upon reaching the age of 60 years or more, but not beyond 65 years which is declared the compulsory retirement age, who has served at least five years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half month salary for every year of service, a fraction of at least six months being considered as one whole year.

The Company is in compliance of the minimum requirement of RA 7641 as at March 31, 2020 and 2019.

The Company has an unfunded non-contributory defined benefit retirement plan covering all of its regular employees. The benefits are based on years of service and compensation. Under the plan, the employees are entitled to retirement benefits equivalent to 22.5 days of final salary on attainment of a retirement age of 60.

The plan typically exposes the Company to actuarial risks such as interest, longevity, and salary risk.

Interest Rate Risk
A decrease in the government bond interest rate will increase the plan liability.

Longevity Risk
The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment.

An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary Risk
The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

No other post-retirement benefits are provided to these employees.

The most recent actuarial valuation of the plan assets and the present value of the defined benefit obligation were carried out at March 31, 2020 by an independent actuary.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | Valuation at | |
|---|---|---|
| | **2020** | 2019 |
| Discount rate | 4.75% | 6.50% |
| Expected rate of salary increases | 6.00% | 6.00% |

Amounts recognized in the statements of comprehensive income in respect of these defined benefit plans are as follows:

| | **2020** | 2019 |
|---|---|---|
| Service cost: | | |
| Current service cost | **P4,034,400** | P3,560,400 |
| Interest cost | **1,639,100** | 1,317,100 |
| Components of defined benefit costs recognized in profit or loss | **P5,673,500** | P4,877,500 |
| Remeasurement on the net defined benefit liability: | | |
| Actuarial losses: | | |
| From changes in demographic assumptions | **(P255,000)** | P - |
| From changes in economic assumptions | **7,715,000** | - |
| From experience adjustments | **(1,119,900)** | 77,500 |
| Components of defined benefit costs recognized in other comprehensive income | **P6,340,100** | P77,500 |

The total amount of P5,673,500 and P4,877,500 in 2020 and 2019, respectively, has been included in operating expenses as disclosed in Note 19.

The remeasurement of the net defined benefit liability amounting to a loss of P6,340,100 and P77,500 in 2020 and 2019, respectively, is included in other comprehensive income, net of the applicable deferred taxes amounting to a benefit of P1,902,030 and P23,250, respectively, as disclosed in Note 24.

The amount included in the statements of financial position arising from the Company's obligation in respect of its defined benefit plans, follows:

| | **March 31** | |
|---|---|---|
| | **2020** | 2019 |
| Present value of defined benefit obligations | **P37,231,100** | P25,217,500 |

Movements in the present value of defined benefit obligations are as follows:

| | **2020** | 2019 |
|---|---|---|
| Balance, April 1 | **P25,217,500** | P20,262,500 |
| Current service cost | **4,034,400** | 3,560,400 |
| Interest cost | **1,639,100** | 1,317,100 |
| Remeasurement losses | | |
| Actuarial loss arising from changes in experience adjustments | **6,340,100** | 77,500 |
| Balance, March 31 | **P37,231,100** | P25,217,500 |

Significant actuarial assumptions for the determination of the defined obligation are discount rate and expected salary increases. The sensitivity analysis below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

| | 2020 | |
|---|---|---|
| | **Change in Assumption** | **Effect on Retirement Benefit Obligation** |
| Discount rate | 1.00% increase | **(12.67%)** |
| | 1.00% decrease | **15.39%** |
| Rate of salary increase | 1.00% increase | **15.03%** |
| | 1.00% decrease | **(12.64%)** |

| | 2019 | |
|---|---|---|
| | Change in Assumption | Effect on Retirement Benefit Obligation |
| Discount rate | 1.00% increase | (12,47%) |
| | 1.00% decrease | 15.06% |
| Rate of salary increase | 1.00% increase | 14.98% |
| | 1.00% decrease | (12.63%) |

The sensitivity analysis presented above 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 liability recognized in the statements of financial position.

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

As at March 31, 2020 and 2019, there are 170 and 167 active employees with an average age of 37.09 and 36.83 years and an average period of service of 21.49 and 21.62 years, respectively.

## 26. Fair Value of Financial Instruments

The fair values of the Company's financial assets and financial liabilities are shown below:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash | **P51,521,299** | **P51,521,299** | P91,045,862 | P91,045,862 |
| Trade and other receivables | **452,739,242** | **452,739,242** | 353,072,338 | 353,072,338 |
| Rental security deposits | **1,948,781** | **1,948,781** | 1,908,781 | 1,908,781 |
| | **P506,209,322** | **P506,209,322** | P446,026,981 | P446,026,981 |
| **Financial Liabilities** | | | | |
| Trade and other payables | **P201,537,129** | **P201,537,129** | P160,639,521 | P160,639,521 |
| Due to a related party | **224,792,432** | **224,792,432** | 326,064,585 | 326,064,585 |
| | **P426,329,561** | **P426,329,561** | P486,704,106 | P486,704,106 |

Trade and other payables exclude government related liabilities as at March 31, 2020 and 2019 amounting to P5.05 million and P6.75 million, respectively, as disclosed in Note 11.

Due to the short-term maturities of cash, trade and other receivables, trade and other payables and due to a related party, their carrying amounts approximate their fair values.

Fair Value Hierarchy
Financial assets and liabilities measured at fair value in the statements of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and financial liabilities.

As at March 31, 2020 and 2019, derivative financial liabilities carried at fair value amounting to P27,872 and nil, respectively, are valued based on Level 2.

The Company has no financial instruments valued based on Levels 1 and 3 as at March 31, 2020 and 2019. During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 27. Financial Risk Management

The Company is exposed to financial risks such as market risk which includes foreign exchange risk, credit risk and liquidity risk. The Company's policies and objectives in managing these risks are summarized below:

Market Risk
Market risk refers to the possibility that changes in market prices, such as foreign exchange rates will affect the Company's profit or the value of its holdings of financial instruments. The Company focuses on one market risk area, which is the foreign currency exchange risk. The objective and management of this risk is discussed below.

*Foreign Currency Exchange Risk*
Foreign currency exchange risk arises when an investment's value varies due to changes in currency exchange rate. The Company undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arose. Significant fluctuation in the exchange rates could significantly affect the Company's financial position.

The carrying amounts of the Company's foreign currency denominated monetary asset and monetary liabilities at the end of each reporting period are as follows:

| | **2020** | 2019 |
|---|---|---|
| Cash | **P1,120,083** | P1,318,863 |
| Due to a related party | **(224,792,432)** | (326,064,585) |
| | **(P223,672,349)** | (P324,745,722) |

The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 1% in 2020 and 2019, respectively, and it represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% and 1% change in foreign currency rates in 2020 and 2019, respectively. The sensitivity analysis includes all the Company's foreign currency denominated monetary items. The Company believes that a 1.00% appreciation on the Philippine Peso in 2020 and 2019, respectively, would result in a decrease in the foreign exchange loss by P2.24 million in 2020 and P3.24 million in 2019. As a result, the Company's net profit and equity will increase by approximately P2.24 million for 2020 and P3.24 million for 2019. For 1.00% weakening of the Philippine Peso against the relevant currency in 2020 and 2019, respectively, there would be an equal and opposite impact on the net profit and equity.

In management's opinion, the sensitivity analysis is not representative of the inherent foreign exchange risk because the exposure at the end of the reporting period does not reflect the exposure during the year.

*Interest Rate Risk*
Interest rate risk refers to the possibility that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest. The primary source of the Company's interest rate risk relates to cash. The interest rate on cash is disclosed in Notes 6.

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date. A 10 basis point increase or decrease is used in reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

Had interest rates been 10 basis point higher/lower and all other variables were held constant, the Company's profit would have been decreased/increased by P19,908 and P19,840 in 2020 and 2019, respectively.

Credit Risk
The Company trades only with recognized, credit worthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company does not grant credit terms without the specific approval of the credit departments under the direction of the management. Moreover, management regularly reviews the age and status of outstanding accounts.

Trade receivables consist of account due from its exclusive distributor. The customer credit risk is managed by the Company based on its established policy, procedures and control relating to credit risk management.

The Company does not have significant credit risk exposure to its Parent Company. The credit risk on liquid funds and derivative financial instruments is limited because banks are with high credit-ratings assigned by international credit-rating agencies.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

ECL are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

The Company's current credit risk grading framework comprises the following categories:

| Category | Description | Basis for Recognizing Expected Credit Losses |
|---|---|---|
| Performing | The counterparty has a low risk of default and does not have any past-due amounts | 12-month ECL |
| Doubtful | Amount is >120 days past due or there has been a significant increase in credit risk since initial recognition | Lifetime ECL - not credit-impaired |
| In default | Amount is >180 days past due or there is evidence indicating the asset is credit-impaired | Lifetime ECL - credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery | Amount is written-off |

The table below presents the Company's exposure to credit risk and shows the credit quality of the financial assets by indicating whether the financial assets are subjected to 12-month ECL or lifetime ECL.

| | *Note* | Internal Credit Rating | 12-month or Lifetime ECL? | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Cash in banks | *6* | **(i)** | **12-month ECL** | **P50,600,294** | **P -** | **P50,600,294** |
| Trade and other receivables | *7* | **(i)** | **Lifetime ECL** | **452,739,242** | **-** | **452,739,242** |
| Rental security deposit | *13* | **(i)** | **12-month ECL** | **1,948,781** | **-** | **1,948,781** |
| | | | | **P505,288,317** | **P -** | **P505,288,317** |

| | *Note* | Internal Credit Rating | 12-month or Lifetime ECL? | Gross Carrying Amount | Loss Allowance | Net Carrying Amount |
|---|---|---|---|---|---|---|
| **2019** | | | | | | |
| Cash in banks | *6* | **(i)** | **12-month ECL** | **P90,128,888** | **P -** | **P90,128,888** |
| Trade and other receivables | *7* | **(i)** | **Lifetime ECL** | **353,072,338** | **-** | **353,072,338** |
| Rental security deposit | *13* | **(i)** | **12-month ECL** | **1,908,781** | **-** | **1,908,781** |
| | | | | **P445,110,007** | **P -** | **P445,110,007** |

(i) The Company has applied the simplified approach in PFRS 9 to measure the loss allowance. The Company determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

The aging of financial assets at amortized cost are as follows:

| | Neither Past Due nor Impaired | Past Due Account but Not Impaired 0 - 30 Days Past Due | 31 - 60 Days Past Due | 61 - 90 Days Past Due | Over 90 Days Past Due | Impaired | Total |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| **Cash** | **P51,521,299** | **P -** | **P -** | **P -** | **P -** | **P -** | **P51,521,299** |
| **Trade and other receivables** | **374,608,335** | **78,130,907** | **-** | **-** | **-** | **-** | **452,739,242** |
| **Rental security deposits** | **1,948,781** | **-** | **-** | **-** | **-** | **-** | **1,948,781** |
| | **P428,078,415** | **P78,130,907** | **P -** | **P -** | **P -** | **P -** | **P506,209,322** |

| | Neither Past Due nor Impaired | Past Due Account but Not Impaired 0 - 30 Days Past Due | 31 - 60 Days Past Due | 61 - 90 Days Past Due | Over 90 Days Past Due | Impaired | Total |
|---|---|---|---|---|---|---|---|
| 2019 | | | | | | | |
| Cash | P91,045,862 | P - | P - | P - | P - | P - | P91,045,862 |
| Trade and other receivables | 343,343,848 | 9,728,490 | - | - | - | - | 353,072,338 |
| Rental security deposits | 1,908,781 | - | - | - | - | - | 1,908,781 |
| | P436,298,491 | P9,728,490 | P - | P - | P - | P - | P446,026,981 |

Liquidity Risk

Liquidity risk refers to the possibility 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 maintains adequate liquid assets in the form of cash and trade and other receivables, with maturity of until 90 days only, to assure necessary liquidity. As also disclosed in Note 29, the Parent Company provides support to the Company.

The following table details the Company's remaining contractual maturities for its non-derivative financial liabilities:

| | **Weighted Average Effective Interest Rates** | **1 - 6 Months** | **6 Months to 1 Year** | **More than 1 Year** | **Total** |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Due to related parties | **P -** | **P224,792,432** | **P -** | **P -** | **P224,792,432** |
| Trade and other payables* | **-** | **201,537,129** | **-** | **-** | **201,537,129** |
| | **P -** | **P426,329,561** | **P -** | **P -** | **P426,329,561** |

**Excluding statutory payables*

| | Weighted Average Effective Interest Rates | 1 - 6 Months | 6 Months to 1 Year | More than 1 Year | Total |
|---|---|---|---|---|---|
| 2019 | | | | | |
| Due to related parties | P - | P270,446,451 | P55,618,134 | P - | P326,064,585 |
| Trade and other payables* | - | 160,639,521 | - | - | 160,639,521 |
| | P - | P431,085,972 | P55,618,134 | P - | P486,704,106 |

**Excluding statutory payables*

## 28. Capital Risk Management

As a wholly owned subsidiary and with active support of the Parent Company, the Company's objective for managing capital risks is to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance.

The Company's overall strategy to continue to strive in providing qualitative and affordable health care options remains unchanged from 2019.

The Company is not subject to externally imposed capital requirements.

## 29. Oher Matters - Subsequent Events

On March 16, 2020, pursuant to Proclamation No. 929, Declaring a State of Calamity throughout the Philippines due to Corona Virus Disease 2019, the President placed the entire Luzon under Enhanced Community Quarantine (ECQ), to prevent the corona virus disease (Covid-19) from spreading further. ECQ is imposed beginning March 17, 2020 until April 12, 2020 and it was extended until May 15, 2020. During the ECQ, a strict home quarantine is implemented in all households, transportation is suspended, provision for food and essential health services is regulated and the presence of uniformed personnel to enforce quarantine procedures is heightened.

Depending on the magnitude of such effects on the Company's marketing and selling activities or the operations of their suppliers, third-party distributors, the supply chain, manufacturing and product shipments can be delayed, which could adversely affect the Company's business, operations and customer relationships. In addition, the COVID-19 or other disease outbreak will in the short-run and may over the longer term adversely affect the economies and financial markets of many countries, resulting in an economic downturn that will affect demand for the Company's products and impact their operating results. Although the magnitude of the impact of the Novel Coronavirus (COVID-19) outbreak on the Company's business and operations remains uncertain, the continued spread of the Novel Coronavirus (COVID-19) or the occurrence of other epidemics and the imposition of related public health measures and travel and business restrictions will adversely impact the Company's business, financial condition, operating results and cash flows. In addition, disruptions to the business operations resulting from quarantines, self-isolations, or other movement and restrictions on the ability of the Company's employees to perform their jobs that may impact our ability to develop and design the Company's products in a timely manner or meet required milestones or customer commitments. These disruptions may also impact their ability to win in time sensitive competitive bidding selection processes.

The Company's management is monitoring this situation to safeguard the health and safety of its employees and to adapt its operations to circumstances that prevail as these events continue evolving.

Despite or amidst this event, the financial statements have been prepared on a going concern basis of accounting as of reporting date.

## 30. Supplementary Information Required Under RR No. 15-2010 of the Bureau of Internal Revenue (BIR)

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements, which were prepared in accordance with PFRS. The following are the tax information/ disclosures required for the taxable year ended March 31, 2020:

### A. VAT

| | Amount |
|---|---|
| 1. Output VAT | **P104,403,521** |
| ***Account title used:*** | |
| Basis of the Output VAT: | |
| Vatable sales | **P870,029,343** |
| Exempt sales | **475,959,648** |
| | **P1,345,988,991** |
| 2. Input VAT | |
| Balance at the beginning of the year | **P4,433,269** |
| Current year's domestic purchases: | |
| a. Purchases of capital goods exceeding P1M | **-** |
| b. Purchases of capital goods not exceeding P1M | **-** |
| c. Domestic purchases of goods other than capital goods | **514,112** |
| d. Importation of goods other than capital goods | **57,629,920** |
| e. Domestic purchases of services | **11,123,595** |
| f. Input tax deferred on capital goods | **-** |
| Claims for tax credit/refund and other adjustments | **(67,460,612)** |
| Balance at the end of the year | **P6,240,284** |
| 3. Landed cost of imports, custom duties and tariff fees paid or accrued | **P507,036,788** |

### B. Withholding Taxes

| | Amount |
|---|---|
| Tax on compensation and benefits | **P15,129,445** |
| Creditable withholding taxes | **7,332,197** |
| Final withholding taxes | **1,354,989** |
| | **P23,816,631** |

### C. All Other Taxes (Local and National)

| | Amount |
|---|---|
| ***Other taxes paid during the year recognized under "Taxes and licenses" account under Operating Expenses*** | |
| License and permit fees - charged to operating expense | **7,153,597** |

## D. Deficiency Tax Assessments/Tax Cases

As at March 31, 2020, the Company does not have any tax deficiency assessment nor tax case.

Information on the amount of documentary stamp tax and excise taxes is not applicable since there are no transactions that the Company would be subject to these taxes for the year ended March 31, 2020.

# C O V E R  S H E E T

For

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| C | S | 2 | 0 | 0 | 4 | 1 | 1 | 0 | 7 | 0 |
|---|---|---|---|---|---|---|---|---|---|---|

COMPANY NAME

TORRENT PHARMA PHILIPPINES, INC. (A Wholly-Owned Subsidiary of Torrent PharmaceutIcals Ltd., an Indian Company)

PRINCIPAL OFFICE ( No. / Street / Barangay / City / Town / Province)

Units 3 & 4, 34th Floor, Zuellig Building, Makati AvenUe corner Paseo de Roxas, Makati City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | | |

COMPANY INFORMATION

| Company's email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| N/A | **895-2097/4093** | 09989672004 |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 6 | Last working day of July | March 31 |

CONTACT PERSON INFORMATION

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

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| ORLANDO C. REYES | ocreyes@torrentphilippines.com | 802-4092 | 09989672004 |

CONTACT PERSON's ADDRESS

Units 3 & 4, 34th Floor Zuellig Building, Makati Avenue corner Paseo de Roxas, Makati City

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

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