

LUPIN PHILIPPINES, INC.

[A Wholly-Owned Subsidiary of Nanomi, B.V.
(Formerly known as “Lupin Holdings, B.V.”)]

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
Lupin Philippines, Inc.
1135 Chino Roces Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lupin Philippines Inc., (a wholly-owned subsidiary of Nanomi, B.V. formerly known as Lupin Holdings, B.V.), (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 year 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 year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit 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 audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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



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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 19 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 audit 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.

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. PA-A-874-A, Group A, valid until June 30, 2020

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Issued January 2, 2020 at Makati City

May 21, 2020

Makati City, Metro Manila

LUPIN PHILIPPINES, INC.
[A Wholly-Owned Subsidiary of Nanomi, B.V.
(Formerly known as “Lupin Holdings, B.V.”)]

STATEMENTS OF FINANCIAL POSITION

| | | March 31 | |
|--------------------------------------|-------------|---------------------|--------------|
| | <i>Note</i> | 2020 | 2019 |
| ASSETS | | | |
| Current Assets | | | |
| Cash | 4, 17 | P40,721,395 | P20,751,055 |
| Trade and other receivables - net | 5, 10, 17 | 305,295,500 | 230,050,706 |
| Due from related parties | 10, 17 | 65,751,000 | 4,902,285 |
| Inventories - net | 6, 13 | - | 1,887,484 |
| Prepayments and other current assets | 7 | 2,956,726 | 10,545,835 |
| Total Current Assets | | 414,724,621 | 268,137,365 |
| Noncurrent Assets | | | |
| Property and equipment - net | 8 | 484,987 | 874,508 |
| Refundable security deposit | 16, 17 | 22,400 | 22,400 |
| Deferred tax assets | 15 | - | 701,527 |
| Total Noncurrent Assets | | 507,387 | 1,598,435 |
| | | P415,232,008 | P269,735,800 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Trade and other payables | 9, 10, 17 | P329,910,454 | P208,739,637 |
| Due to related parties | 10, 17 | 9,634,798 | 9,828,038 |
| Total Current Liabilities | | 339,545,252 | 218,567,675 |
| Noncurrent Liability | | | |
| Deferred tax liability | 15 | 2,061,890 | - |
| Total Liabilities | | 341,607,142 | 218,567,675 |
| Equity | | | |
| Share capital | 11 | 47,901,360 | 47,901,360 |
| Retained earnings | | 25,723,506 | 3,266,765 |
| Total Equity | | 73,624,866 | 51,168,125 |
| | | P415,232,008 | P269,735,800 |

See Notes to the Financial Statements.

LUPIN PHILIPPINES, INC.
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STATEMENTS OF COMPREHENSIVE INCOME

| | | Years Ended March 31 | |
|-------------------------------------|-------------|-----------------------------|--------------|
| | <i>Note</i> | 2020 | 2019 |
| SALE OF GOODS | 12 | P390,840,998 | P226,461,775 |
| COST OF GOODS SOLD | 13 | 354,470,163 | 182,017,647 |
| GROSS PROFIT | | 36,370,835 | 44,444,128 |
| OPERATING EXPENSES | 14 | 5,631,796 | 18,431,820 |
| INCOME FROM OPERATIONS | | 30,739,039 | 26,012,308 |
| OTHER INCOME (CHARGES) - Net | | | |
| Foreign exchange gain (loss) - net | | 1,676,667 | (918,967) |
| Bank charges | | (367,331) | (301,418) |
| Interest income | 4 | 39,656 | 32,507 |
| Service income | | - | 5,361,959 |
| | | 1,348,992 | 4,174,081 |
| PROFIT BEFORE TAX | | 32,088,031 | 30,186,389 |
| INCOME TAX EXPENSE | 15 | 9,631,290 | 9,447,009 |
| TOTAL COMPREHENSIVE INCOME | | P22,456,741 | P20,739,380 |

See Notes to the Financial Statements.

LUPIN PHILIPPINES, INC.
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STATEMENTS OF CHANGES IN EQUITY

| | Years Ended March 31 | | |
|--------------------------------|---------------------------------------|--|--------------------|
| | Share Capital (see Note 11) | Retained Earnings (Deficit) | Total |
| Balance, April 1, 2018 | P47,901,360 | (P17,472,615) | P30,428,745 |
| Profit for the year | - | 20,739,380 | 20,739,380 |
| Balance, March 31, 2019 | 47,901,360 | 3,266,765 | 51,168,125 |
| Profit for the year | - | 22,456,741 | 22,456,741 |
| Balance, March 31, 2020 | P47,901,360 | P25,723,506 | P73,624,866 |

See Notes to the Financial Statements.

LUPIN PHILIPPINES, INC.
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STATEMENTS OF CASH FLOWS

| | | Years Ended March 31 | |
|---|-------------|-----------------------------|---------------|
| | <i>Note</i> | 2020 | 2019 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | P32,088,031 | P30,186,389 |
| Adjustments for: | | | |
| Unrealized foreign exchange loss - net | | (8,140,233) | (3,341,840) |
| Depreciation and amortization | 8 | 389,521 | 390,809 |
| Interest income | 4 | (39,656) | (32,507) |
| Allowance for inventory obsolescence | 6 | - | 3,855,036 |
| Operating cash flows before working capital changes | | 24,297,663 | 31,057,887 |
| Decrease (increase) in: | | | |
| Trade and other receivables | | (76,813,691) | 154,249,672 |
| Due from related parties | | (60,848,715) | (170,182) |
| Inventories | | 1,887,484 | 14,278,347 |
| Prepayments and other current assets | | 721,236 | 1,003,296 |
| Increase (decrease) in: | | | |
| Trade and other payables | | 129,952,472 | (216,667,218) |
| Due to related parties | | 886,424 | 188,158 |
| Cash generated from (used in) operations | | 20,082,873 | (16,060,040) |
| Interest income received | | 39,656 | 32,507 |
| Income taxes paid | | - | (4,322,518) |
| Net cash flows provided by (used in) operating activities | | 20,122,529 | (20,350,051) |
| EFFECT OF EXCHANGE RATE CHANGES IN CASH | | (152,189) | 2,422,873 |
| CASH AT BEGINNING OF YEAR | | 20,751,055 | 38,678,233 |
| CASH AT END OF YEAR | 4 | P40,721,395 | P20,751,055 |

See Notes to the Financial Statements.

LUPIN PHILIPPINES, INC.
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NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Lupin Philippines, Inc. (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on December 20, 2010. The Company is wholly owned by Nanomi, B.V., (formerly known as Lupin Holdings, B.V.) (the "Parent Company"), an entity registered in the Netherlands. The Company's ultimate parent is Lupin Limited (LL), an entity incorporated under the laws of India and listed in the Bombay Stock Exchange. The Company was incorporated primarily for the following purposes:

- a. To hold product registrations of LL and other in-licensed products and to enable it to invest in strategic alliances;
- b. To carry on the business of manufacturers, importers, exporters, marketers, buyers, sellers, formulators, processors, extractors, dealers, distributors, and packers of pharmaceutical, medicinal, and veterinary compounds, preparations and drugs of all kinds and all substances intended to be used in the diagnosis, treatment, mitigation or prevention of any disease or disorder in human beings or animals; and
- c. To establish, develop, provide, and render on commercial basis, projects, services, or training in the nature of scientific research and development of and improvement in bulk drugs, pharmaceutical and medicinal substances and finished products of all kinds and related to all branches of medicines, and to hold products of all kinds and related to all branches of medicines, and to hold product registrations related to the forgoing including in-licensed products.

The Company's registered office address and principal place of business is at 1135 Chino Roces Avenue, Makati City.

2. Basis of Preparation

Statement of Compliance

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

The Company qualifies for reporting under PFRS for Small and Medium-sized entities (SMEs). However, the Company availed of the exemption from the mandatory adoption of the PFRS for SMEs as allowed by the Philippine SEC in its SEC Notice dated October 11, 2010 being a subsidiary of a group reporting under IFRSs. Accordingly, the Company opted to adopt PFRS instead of PFRS for SMEs.

Basis of Measurement

The financial statements have been prepared on the historical cost basis of accounting.

Functional and Presentation Currency

The financial statements are presented in Philippine Peso, which is the Company's functional currency. All financial information presented have been rounded to the nearest peso, unless when otherwise indicated.

The accompanying financial statements as at March 31, 2020 were approved and authorized for issue on May 18, 2020 by the Board of Directors of the Company.

3. Summary of Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all years presented in these financial statements, except for the changes in accounting policies as explained below.

Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Company has adopted the following new standards starting April 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standards 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 introduced.

PFRS 16 is effective for annual periods beginning on or after April 1, 2019. Earlier application is permitted for entities that apply PFRS 15, at or before the date of initial application of PFRS 16.

On transition to PFRS 16, the Company elected to apply the practical expedient wherein the Company did not recognize right-of-use assets and lease liabilities for which the lease term ends within 12 months of the date of initial application. The Company only entered short-term arrangement covering the lease of its office space.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments* 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 judgments 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 April 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 adoption of the interpretation did not have significant impact on the Company's financial statements.

Standards Issued But Not Yet Adopted

A number of new standards and amendments to standards are effective for annual periods beginning after April 1, 2019. However, the Company has not applied the following new or amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2020

- *Amendments to References to Conceptual Framework* in PFRS Standards sets out amendments to PFRS Standards, 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 new chapter on measurement;
 - guidance on reporting financial performance;
 - improved definitions of an asset and a liability, and guidance supporting these definitions; and
 - 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 (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (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.

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

- *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 material. The amended definition of material states that 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 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 material across PFRS Standards 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. Earlier application is permitted.

Current versus Noncurrent Classification

The Company presents its assets and liabilities in the statements of financial position based on current and noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as noncurrent.

Financial Instruments

Non-derivative Financial Instruments. Non-derivative financial instruments consist of cash, trade and other receivables, due from related parties, trade and other payables and due to related parties.

Recognition and Initial Measurement. Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

Financial Assets

Classification and Subsequent Measurement. On initial recognition, the Company classifies its financial assets in the following measurement categories: amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company has no financial assets classified as measured at: FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost using the effective interest method if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold 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.

The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash, trade and other receivables and due from related parties.

Cash includes cash on hand and deposits held at call with the bank. They are carried in the statement of financial position at face or nominal amount. Cash in bank earns interest at the prevailing bank deposit rates.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions of the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit) in profit or loss, unless it qualifies for recognition as some other type of asset. In cases where use of data is made which are not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Business Model Assessment. The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- 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 managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; 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.

Solely Payments of Principal and Interest Assessment. Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing 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. In making this assessment, the Company considers:

- 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 (e.g. non-recourse features).

Impairment of Financial Assets

The Company uses 'expected credit loss' (ECL) model in the impairment of its financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. ECL is the probability-weighted estimate of credit losses over the expected life of the financial instrument, representing the present value of expected cash shortfalls. The Company applies either a 12-month ECL or a lifetime ECL. Lifetime ECL applies to the financial assets that have experienced a significant increase in credit risk or are already credit-impaired. The Company's approach to ECL measurement are described in Note 18.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal credit rating
- External credit rating (as far as available)
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtor and changes in the operating results of the debtor

Regardless of the analysis above, a significant risk is presumed if a debtor is more than thirty (30) days due in making a contractual payments.

A default on a financial asset is when the counterparty fails to make contractual payments and objective evidence of impairment exists. A financial asset is credit-impaired when an event that has a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as default;
- it is probable that the borrower will enter bankruptcy or either financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Financial assets are written off when there is no reasonable expectation of recovery. The Company categorizes a receivable for write off when a debtor fails to make payments or when it is no longer probable that the receivable will be collected. Where loans or receivables have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

Offsetting Financial Assets and Liabilities.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

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 derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset 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, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. 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 could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, 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 as 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.

Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, when necessary, based on the market values, being the estimated amount for which assets could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The different levels of fair value of financial instruments carried at fair value, by valuation method have been defined as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period during which the change has occurred.

Inventories

Inventories are initially measured at cost. Subsequently, inventories are valued at the lower of cost and net realizable value (NRV). Costs of inventories are assigned using the weighted average method and includes expenditures incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the NRV of the inventories is lower than the cost, the Company provides an allowance for the decline in the value of the inventory and recognizes the write-down as an expense in profit or loss. The amount of any reversal of any write-down of inventories, arising from an increase in NRV, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

When inventories are sold, the carrying amounts of those inventories are recognized under "Cost of Goods Sold" account in statement of comprehensive income in the period in which the related revenue is recognized.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. 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 (1) year or the Company's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and impairment losses, if any.

Initially, an item of property and equipment is measured at its cost, which consists of purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits associated with the assets, in excess of the originally assessed standard of performance, will flow to the Company.

All other subsequent expenditures are recognized as an expense in the period in which it is incurred.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives of the assets:

| | <u>Number of Years</u> |
|-------------------------------|------------------------|
| Office furniture and fixtures | 5 |
| Office equipment | 3 |
| Transportation equipment | 5 |

Leasehold improvements are amortized over the improvements' useful life of five (5) years or when shorter, the terms of the relevant lease.

The useful lives and method of depreciation and amortization are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized in profit or loss, whenever the carrying amount of an asset exceeds its recoverable amount or its future cash flows expected to be generated.

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.

Impairment of Tangible Assets

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 (CGU) to which the asset belongs. If a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs 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 assessing 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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized as an expense. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indication 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 or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income.

Equity

Capital Stock

Capital stock is classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Retained Earnings

The amount included in retained earnings includes earnings attributable to the Company's equity holders and reduced by dividends, if any, on share capital. Dividends on share capital are recognized as liability and deducted from equity when they are declared by the Company's stockholders. Dividends for the year that are approved after the financial reporting date are dealt as an event after the financial reporting date.

Employee Benefits

Short-term Benefits

The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the period. Short-term benefits given by the Company to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, medical insurance and other non-monetary benefits.

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

Share-based Payments

For cash-settled share-based payments, a liability is recognized for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

Revenue Recognition

Revenue from Contracts with Customers

The Company's business is primarily to engage in the business of buying, selling, importing, marketing, distribution by wholesale and retail, both domestic and international, all drugs, medicines, chemicals, medical devices and allied products, pharmaceuticals and other articles pertaining to the drug business.

The Company recognizes revenue when it transfers control over a product or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer.

In the comparative period, revenue was measured at the fair value of the consideration received or receivable. Revenue from sale of goods and services was recognized when the significant risks and rewards of ownership had been transferred to the customer, recovery of the consideration was probable, the associated costs and possible return of goods or services could be estimated reliably, there was no continuing management involvement with the goods or services and the amount of revenue could be measured reliably.

Interest Income. Interest income is recognized as it accrues, using the effective interest method.

Other Income. Other income is recognized when earned.

Cost and Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that 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 statement of comprehensive income are presented using the function of expense method. Cost of goods sold consists of expenses incurred that are associated with the goods sold. Operating expenses are costs attributable to administrative, selling, and other business activities of the Company.

Short-term Leases

The Company has elected not to recognize right-of-use assets and lease liabilities for short term leases. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Foreign Currency Transactions

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in profit or loss.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Related Party Transactions

Transfer of resources, services or obligations between the Company and its related parties, regardless of whether a price is charged.

Parties are considered related if one party has control, joint control, or 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. An entity that has a post-employment benefit plan for the employees of the Company and the key management personnel of the Company are also considered to be related parties.

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 in profit or loss for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income in which case it is recognized in equity or other comprehensive income.

Current Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement 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 liability for current tax is calculated using the RCIT rate of 30% of taxable income or the MCIT of 2% of defined gross income, whichever is higher.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Value Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to the taxation authority is included as part of "Prepayments and other current assets" account.

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 through an outflow of resources embodying economic benefits, and the amount of the obligation can be estimated reliably.

The amount of the provision 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. 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.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Date

Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Cash

This account consists of:

| | <i>Note</i> | 2020 | 2019 |
|---------------|-------------|--------------------|-------------|
| Cash in banks | 17 | P40,701,395 | P20,731,055 |
| Cash on hand | | 20,000 | 20,000 |
| | | P40,721,395 | P20,751,055 |

Interest income related to cash in banks amounted to P39,656 and P32,507 for the year ended March 31, 2020 and 2019, respectively. Cash in banks earns interest income at average annual interest rate of 0.25%.

5. Trade and Other Receivables - net

The Company's trade and other receivables - net consists of:

| | <i>Note</i> | 2020 | 2019 |
|---------------------------------------|-------------|---------------------|--------------|
| Trade receivables - third parties | | P37,685,706 | P62,185,251 |
| Less: Allowance for doubtful accounts | | 1,419,458 | 1,419,458 |
| | | 36,266,248 | 60,765,793 |
| Trade receivables - related party | 10 | 238,914,007 | 152,494,507 |
| Advances to employees and others | | 30,115,245 | 16,790,406 |
| | | P305,295,500 | P230,050,706 |

Trade and other receivables are non-interest bearing, unsecured and are generally on 60 to 90-day term.

In determining the recoverability of trade receivables, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

The Company has no provision for doubtful accounts for the years ended March 31, 2020 and 2019.

6. Inventories - net

The Company's inventories are as follows:

| | 2020 | 2019 |
|--|-------------------|------------|
| Finished goods | P3,855,036 | P5,742,520 |
| Less: Allowance for inventory obsolescence | 3,855,036 | 3,855,036 |
| | P - | P1,887,484 |

All inventories are valued at lower of cost or NRV. Management believes that the NRV of the Company's inventories exceeds their carrying values. Provision for inventory obsolescence amounting to nil and P3,810,288 for the years ended March 31, 2020 and 2019, respectively, is recorded as part of purchases and other direct costs under "cost of goods sold" account.

7. Prepayments and Other Current Assets

The Company's prepayments and other current assets consists of:

| | 2020 | 2019 |
|----------------|-------------------|-------------|
| Prepaid tax | P2,440,353 | P9,694,373 |
| Prepaid others | 516,373 | 851,462 |
| | P2,956,726 | P10,545,835 |

8. Property and Equipment - net

The movements in this account are as follows:

| | <i>Note</i> | Office Furniture and Fixtures | Office Equipment | Transportation Equipment | Total |
|---------------------------------|-------------|-------------------------------------|---------------------|-----------------------------|-------------------|
| Costs | | | | | |
| March 31, 2020 and 2019 | | P36,182 | P290,797 | P1,914,585 | P2,241,564 |
| Accumulated Depreciation | | | | | |
| April 1, 2018 | | 35,551 | 259,354 | 681,342 | 976,247 |
| Depreciation | 14 | 631 | 7,261 | 382,917 | 390,809 |
| March 31, 2019 | | 36,182 | 266,615 | 1,064,259 | 1,367,056 |
| Depreciation | 14 | - | 6,604 | 382,917 | 389,521 |
| March 31, 2020 | | 36,182 | 273,219 | 1,447,176 | 1,756,577 |
| Carrying Amount | | | | | |
| March 31, 2019 | | P - | P24,182 | P850,326 | P874,508 |
| March 31, 2020 | | P - | P17,578 | P467,409 | P484,987 |

Management believes that there is no indication of impairment on its property and equipment for the years ended March 31, 2020 and 2019, respectively.

9. Trade and Other Payables

This account consists of:

| | <i>Note</i> | 2020 | 2019 |
|------------------------------------|-------------|---------------------|--------------|
| Trade payables: | | | |
| Related parties | 10 | P285,985,787 | P171,752,162 |
| Third parties | | 33,488,397 | 32,901,732 |
| Non-trade payables: | | | |
| Statutory payables | | 2,639,289 | 2,543,640 |
| Accrued expenses | | 2,163,365 | 1,149,156 |
| Output VAT - net | | 429,228 | 215,099 |
| Advances from employees and others | | 5,204,388 | 177,848 |
| | | P329,910,454 | P208,739,637 |

Trade payables have an average 60-day credit term. No interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Trade payables to related parties also include accrual of liquidated damages to be paid to Multicare Pharmaceuticals Philippines, Inc. due to late deliveries of inventories.

Output VAT payable is presented as net of input VAT of P1.31 million and P9.46 million as at March 31, 2020 and 2019, respectively.

Details of accrued expenses are shown below.

| | 2020 | 2019 |
|---|-------------------|------------|
| Performance bonus | P1,188,299 | P863,549 |
| Audit fees | 310,040 | - |
| 13 th month pay and sick leave | 283,432 | 263,750 |
| Insurance | 21,857 | 21,857 |
| Others | 359,737 | - |
| | P2,163,365 | P1,149,156 |

10. Related Party Transactions

Details of the transactions and outstanding balances with related parties for the years ended March 31, 2020 and 2019 are as follows:

| Relationship | Period | Note | Amount of the Transaction | Outstanding Balance | | Terms and Conditions |
|---|--------------|------|----------------------------|----------------------------|-----------------------------|---|
| | | | | Receivables | Payables | |
| Ultimate Parent Company | | | | | | |
| <i>Lupin Limited (LL)</i> | | | | | | |
| ▪ Purchase of goods | 2020 2019 | a | P228,173,641 17,371,558 | P - - | P220,234,787 171,752,162 | Non-interest bearing; unsecured, no impairment, 60-day term |
| ▪ Service rebilling | 2020 2019 | b | 96,677 5,361,960 | - 4,289,567 | 96,677 - | Non-interest bearing; unsecured, 60-day term |
| ▪ Share-based payment | 2020 2019 | c | - 612,718 | 612,718 612,718 | - - | Non-interest bearing; unsecured, 60-day term |
| ▪ Reimbursement of expenses | 2020 2019 | g | 65,751,000 - | 65,751,000 - | - - | Non-interest bearing |
| Under Common Control | | | | | | |
| <i>Multicare Pharmaceuticals Philippines, Inc. (MPPI)</i> | | | | | | |
| ▪ Advances | 2020 2019 | d | 82,800 82,800 | - - | 8,750,838 8,668,038 | Non-interest bearing; unsecured, no impairment, 60-day term |
| ▪ Sale of goods | 2020 2019 | e | 277,838,623 85,424,487 | 238,914,007 152,494,507 | - - | Non-interest bearing; unsecured, 60-day term |
| ▪ Rental | 2020 2019 | f | 240,000 240,000 | - - | 1,400,000 1,160,000 | Non-interest bearing; unsecured, 60-day term |
| ▪ Provision for liquidated damages | 2020 2019 | g | 65,751,000 - | - - | 65,751,000 - | Non-interest bearing; |
| | 2020 | | | P305,277,725 | P296,233,302 | |
| | 2019 | | | P157,396,792 | P181,580,200 | |

- Purchases of traded from related parties are unsecured, non-interest bearing and are payable within 90 days from invoice date. Purchases from related parties amounted to P228.17 million and P17.37 million in 2020 and 2019, respectively.
- Service rebilling includes service recharge with 6% margin of expense incurred of the Company's employees providing services to the Parent Company.
- The Company enters into a share-based payments arrangement related to LL's implementation of "Lupin Subsidiary Companies Employee Stock Option Plan 2014" which has expired during 2019.
- The Company extends cash advances to MPPI and vice versa. Advances include cost reimbursement for the Company's employees providing services to MPPI and payments of rental and utilities
- The Company sells inventories to its related parties based on its existing price list as at the date of sale. Sales to related parties are unsecured, non-interest bearing and are normally with 90 days credit term. Sales to related parties amounted to P277.84 million and P85.42 million in 2020 and 2019, respectively.
- The Company has an operating and cancellable lease agreement for its corporate office with a lease term of one (1) year, renewable by agreement of both parties (see Note 16).
- Reimbursement of expenses pertains to the amount receivable from Lupin Limited, Inc., as a supplier of the Company, in relation to the liquidated damages to be paid to MPPI.

11. Equity

Details of share capital as at March 31, 2020 and 2019 are as follows:

| | No. of Shares | Amount |
|---|--------------------------|---------------------|
| Authorized common shares at P10 par value: | | |
| Common shares at P10 par value | 10,000,000 | P100,000,000 |
| Issued, fully paid and outstanding balance, end | 4,790,136 | P47,901,360 |

The Company has one class of common shares which does not carry any right to fixed income.

12. Sale of Goods

This account is consists of sales to foreign and local customers. The breakdown is as follows:

| | 2020 | 2019 |
|---------------|---------------------|--------------|
| Local sales | P278,227,148 | 96,303,516 |
| Foreign sales | 112,613,850 | P130,158,259 |
| | P390,840,998 | P226,461,775 |

13. Cost of Goods Sold

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

| | Note | 2020 | 2019 |
|----------------------------------|-------------|---------------------|--------------|
| Inventories, beginning | 6 | P1,887,484 | P20,065,615 |
| Purchases and other direct costs | | 352,582,679 | 163,839,516 |
| Cost of goods available-for-sale | | 354,470,163 | 183,905,131 |
| Less: Inventories, ending | 6 | - | 1,887,484 |
| Cost of goods sold | | P354,470,163 | P182,017,647 |

14. Operating Expenses

This account consists of:

| | <i>Note</i> | 2020 | 2019 |
|----------------------------------|-------------|-------------------|-------------|
| Salaries and wages | | P1,889,647 | P6,439,251 |
| Taxes and licenses | | 1,713,974 | 3,154,224 |
| Professional fees | | 652,630 | 5,441,268 |
| Depreciation and amortization | 8 | 389,521 | 390,809 |
| Rental | 16 | 240,000 | 240,000 |
| Transportation and travel | | 174,602 | 349,456 |
| Delivery | | 96,599 | 21,454 |
| Communication, light, and water | | 85,085 | 134,915 |
| Insurance expense | | 84,769 | 96,974 |
| Penalties and other charges | | 80,938 | 1,346,138 |
| Postage and supplies | | 50,392 | 6,836 |
| Representation and entertainment | | - | 1,340,378 |
| Repairs and maintenance | | - | 17,172 |
| Share-based payments | | - | (612,718) |
| Others | | 173,639 | 65,663 |
| | | P5,631,796 | P18,431,820 |

15. Income Taxes

The income tax expense consists of:

| | 2020 | 2019 |
|----------------------|-------------------|------------|
| Current tax expense | P6,867,873 | P4,698,695 |
| Deferred tax expense | 2,763,417 | 4,748,314 |
| | P9,631,290 | P9,447,009 |

The reconciliation of the income tax expense computed at the statutory income tax rate to the income tax expense shown in the statement of comprehensive income is as follows:

| | 2020 | 2019 |
|---|--------------------|-------------|
| Income (loss) before income tax | P32,088,031 | P30,186,389 |
| Income tax at statutory income tax rate | P9,626,409 | P9,055,917 |
| Add (deduct) income tax effects: | | |
| Nondeductible expenses | 16,778 | 400,844 |
| Interest income subject to final tax | (11,897) | (9,752) |
| | P9,631,290 | P9,447,009 |

Breakdown of the Company's deferred tax asset (liabilities) as at March 31, 2020 are as follows:

| | March 31, 2019 | Charged to Profit/Loss | March 31, 2020 |
|----------------------------------|-----------------|---------------------------|---------------------|
| Deferred Tax Assets | | | |
| Allowance for doubtful accounts | P425,837 | P - | P425,837 |
| Unrealized foreign exchange loss | 275,690 | (2,763,417) | (2,487,727) |
| | P701,527 | (P2,763,417) | (P2,061,890) |

Breakdown of the Company's deferred tax asset (liabilities) as at March 31, 2019 are as follows:

| | March 31, 2018 | Charged to Profit/Loss | Application of MCIT | March 31, 2019 |
|----------------------------------|-------------------|---------------------------|------------------------|-----------------|
| Deferred Tax Assets | | | | |
| Allowance for doubtful accounts | P425,837 | P - | P - | P425,837 |
| Unrealized foreign exchange loss | 1,845,267 | (1,569,577) | - | 275,690 |
| NOLCO | 3,138,345 | (3,138,345) | - | - |
| MCIT | 741,782 | - | (741,782) | - |
| Share based payment | 40,392 | (40,392) | - | - |
| | P6,191,623 | (P4,748,314) | (741,782) | P701,527 |

16. Lease Commitments

The Company has an operating and cancellable lease agreement for its corporate office with a lease term of one (1) year, renewable by agreement of both parties.

The Company renewed its existing lease for another period of one (1) year up to November 30, 2020. The contract will be subjected to automatic renewal every year unless terminated by either party by giving at least one month prior written notice during the renewal term and subsequent renewals. The lease agreement required the Company to pay a security deposit amounting to P22,400, as presented in the statement of financial position, under "Refundable security deposit" account.

Rental expenses amounted to P240,000 for the years ended March 31, 2020 and 2019.

Future minimum payments are presented below:

| | 2020 | 2019 |
|---------------------|-----------------|----------|
| Due within one year | P240,000 | P240,000 |

17. Financial and Operational Risk Management

Financial Risk Management Objectives and Policies

The Company's activities expose it to a variety of financial risks such as market risk (which includes foreign exchange risk and interest rate risk) credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below.

Market Risk

Market risk refers to the possibility that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's profit or the value of its holdings of financial statements. The Company focuses on two market risk areas such as interest rate risk and foreign currency risk. The objective and management of these risks are discussed below:

Foreign Exchange Risk

Foreign exchange risk arises when an investment's value changes due to changes in currency exchange rate. The Company is exposed to exchange rate risk on certain transactions with one of its customer where sales/receivables are pegged in Philippine peso based on a benchmark exchange rate fixed on a certain day whereas the payments made to the supplier is made in US dollars. The time lag between the date of fixing exchange rate with its customer and the date of payment to its supplier exposes the Company to fluctuations in the exchange rate. The Company believes that this risk is currently acceptable within tolerance levels. However, the Company intends to review its existing policy to refine based on changes in market conditions.

Credit Risk

Credit risk represents the loss that the Company would incur if counterparties fail to perform under their contractual obligations. The Company established controls and procedures on its credit policy to determine and monitor the credit worthiness of customers and counterparties.

Generally, the Company's gross maximum exposure to credit risk as at March 31, 2020 and 2019 is equal to the carrying amount of its financial assets. There are no significant concentrations of credit risk within the Company.

The table below shows the aging analysis of financial assets per class that the Company held as at March 31, 2020 and 2019. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

| 2020 | Note | Neither Past Due nor Impaired | Past Due but not Impaired | | Impaired | Total |
|-----------------------------|------|-------------------------------|---------------------------|---------------------|-------------------|---------------------|
| | | | Less than 30 Days | More than 31 Days | | |
| Cash in banks* | 4 | P40,701,395 | P - | P - | P - | P40,701,395 |
| Trade and other receivables | 5 | 83,910,574 | 31,151,707 | 160,117,974 | 1,419,458 | 276,599,713 |
| Due from related parties | 10 | 65,751,000 | - | - | - | 65,751,000 |
| Refundable security deposit | 16 | 22,400 | - | - | - | 22,400 |
| | | P190,385,369 | P31,151,707 | P160,117,974 | P1,419,458 | P383,074,508 |

*Excluding cash on hand amounting to P20,000

| 2019 | Note | Neither Past Due nor Impaired | Past Due but not Impaired | | Impaired | Total |
|-----------------------------|------|-------------------------------|---------------------------|-------------------|------------|--------------|
| | | | Less than 30 Days | More than 31 Days | | |
| Cash in banks* | 4 | P20,731,055 | P - | P - | P - | P20,731,055 |
| Trade and other receivables | 5 | 49,987,260 | 14,229,874 | 149,043,166 | 1,419,458 | 214,679,758 |
| Due from related parties | 10 | 4,902,285 | - | - | - | 4,902,285 |
| Refundable security deposit | 16 | 22,400 | - | - | - | 22,400 |
| | | P75,643,000 | P14,229,874 | P149,043,166 | P1,419,458 | P240,335,498 |

*Excluding cash on hand amounting to P20,000

The Company evaluates credit quality on the basis of the credit strength of the security and or counter party/issuer. The Company's financial assets that are neither past due nor impaired are considered high grade. Cash in banks is considered high grade as the Company trades only with top banks in the Philippines. Receivables are high grade because they are from related parties, employees and accredited customers who are highly reputable, progressive and consistently pay their accounts. Deposits are high grade since these were paid to creditworthy third parties.

Liquidity Risk

Liquidity risk arises when the Company encounters difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by: a) ensuring that adequate funding is available at all times; b) meeting commitments as they arise without incurring unnecessary costs; c) being able to access funding when needed at the least possible cost; and d) maintaining an adequate time spread of refinancing maturities.

The following table details the Company's remaining contractual maturity for its non-derivative financial liabilities, which include trade and other payables and due to related parties as at March 31, 2020 and 2019. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

The Company's remaining contractual maturity for its non-derivative financial liabilities, are as follows:

| | Note | Less than One Year |
|---------------------------|-------|---------------------|
| 2020 | | |
| Trade and other payables* | 9, 10 | P326,841,937 |
| Due to related parties | 10 | 10,150,838 |
| | | P336,992,775 |
| 2019 | | |
| Trade and other payables* | 9, 10 | P201,326,625 |
| Due to a related party | 10 | 9,828,038 |
| | | P211,154,663 |

*Excluding payables to government agencies amounting to P3,068,517 and P2,758,739 as at March 31, 2020 and 2019, respectively.

Capital Risk Management

The primary objective of the Company's capital management is to maintain a sound capital base and to ensure its ability to continue as a going concern thereby continue to provide returns to shareholders and other stakeholders.

The management has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the Company's external environment and the risks underlying its business, operation and industry. The Company defines capital as total equity excluding other comprehensive income presented in the statement of financial position.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally-imposed capital requirements.

The net debt-to-equity ratio of the Company as at March 31, 2020 and 2019 are as follows:

| | Note | 2020 | 2019 |
|--------------------------|-------------|---------------------|--------------|
| Total liabilities | | P275,856,142 | P218,567,675 |
| Less: Cash | 4 | 40,721,395 | 20,751,055 |
| Net debt | | 235,134,747 | 197,816,620 |
| Total equity | | 73,624,866 | 51,168,125 |
| Net debt to equity ratio | | 3.19:1 | 3.87:1 |

18. 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.

The Company has assessed that the lockdown being implemented by the government will have no significant unfavorable impact on the Company's revenues including the collection of its receivables, among others,

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

**19. Supplementary Information Required by the Bureau of Internal Revenue (BIR)
Under Revenue Regulations No. 15-2010**

The following supplementary information for the year ended March 31, 2020 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

A. VAT

Output VAT

Details of the Company's gross revenue subjected to VAT are as follows:

| | Amount |
|---|---------------------|
| 1. Output VAT | P33,745,890 |
| <hr/> | |
| Basis of the Output VAT: | |
| Vatable sales | P281,215,747 |
| Exempt and zero rated sales | 110,869,781 |
| | P392,085,528 |
| <hr/> | |
| 2. Input VAT | |
| Balance, April 1, 2019 | P3,061,980 |
| Current year purchases: | |
| Importation of goods other than capital goods | 33,846,229 |
| Domestic purchase of services | 902,805 |
| Total available input VAT | 37,811,014 |
| Less: Input VAT claimed against output VAT during the year | (36,504,401) |
| Balance, March 31, 2020 | P1,306,613 |

B. Taxes on Importation of Goods

| | |
|--------------------------------|---------------------|
| Landed cost of imports | P335,535,709 |
| Tariff fees paid or accrued | 12,032,737 |
| Customs duties paid or accrued | 6,901,717 |
| | P354,470,163 |

C. Documentary Stamp Tax

| | |
|--------|----------------|
| Others | P91,799 |
|--------|----------------|

D. Withholding Tax

| | |
|----------------------------------|-----------------|
| Withholding tax on compensation | P198,933 |
| Expanded withholding taxes (EWT) | 136,049 |
| | P334,982 |

E. Other Taxes and Licenses

| | |
|--------------------------------------|-------------------|
| Payments to Bureau of Food and Drugs | P423,625 |
| Payment to local government agencies | 1,241,067 |
| Other taxes and license fees | 49,282 |
| | P1,713,974 |

F. Deficiency Tax Assessments and Tax Cases

The Company has no outstanding tax assessments as at March 31, 2020.

