MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)

Financial Statements
March 31, 2018 and 2017
and
Independent Auditors' Report

26th Floor, Rufino Tower Building, 6784 Ayala Avenue
Makati City, Philippines

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors and Shareholders
MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)
26th Floor Rufino Tower Building
6784 Ayala Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Multicare Pharmaceuticals Philippines, Inc. (the "Company"), which comprise the statements of financial position as at March 31, 2018 and 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required by 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 33 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 and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.
BOA Registration No. 0004, valid from December 4, 2015 to December 31, 2018
SEC Accreditation No. 0001-FR-4, issued on January 7, 2016; effective until January 6, 2019, Group A
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By:

Marites B. Landicho
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PTR No. A-3745357, issued on January 5, 2018, Taguig City

Taguig City, Philippines
April 27, 2018

MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)

STATEMENTS OF FINANCIAL POSITION

		March 31	
	Notes	**2018**	2017
ASSETS			
Current Assets			
Cash	6	**P 34,135,853**	P 115,266,426
Trade and other receivables - net	7	**1,107,587,706**	758,465,602
Due from related parties	17	**9,616,126**	3,114,119
Inventories - net	8	**477,358,629**	524,132,274
Prepayments and other current assets	9	**28,432,368**	18,942,301
Total Current Assets		**1,657,130,682**	1,419,920,722
Non-current Assets			
Property and equipment - net	10	**59,765,898**	54,681,790
Intangible assets - net	11	**27,564,392**	34,604,467
Deferred tax assets	28	**24,240,810**	8,731,813
Other non-current assets	12	**2,286,292**	2,289,167
Total Non-current Assets		**113,857,392**	100,307,237
		P1,770,988,074	P1,520,227,959
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables - net	13	**P 666,168,062**	P547,601,320
Short-term borrowings	14	**360,725,000**	353,250,000
Due to related parties	17	**7,972,890**	11,351,476
Income tax payable		**64,811,758**	32,387,520
Dividends payable	19	**411,753**	348,715
Total Current Liabilities		**1,100,089,463**	944,939,031
Non-current Liability			
Retirement benefit obligation	15	**44,710,204**	54,193,420
		1,144,799,667	999,132,451
Equity			
Share capital	18	**200,000,000**	171,026,500
Share premium	18	**28,400,000**	28,400,000
Retained earnings		**397,788,407**	321,669,008
		626,188,407	521,095,508
		P1,770,988,074	P1,520,227,959

See Notes to Financial Statements.

MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)

STATEMENTS OF COMPREHENSIVE INCOME

		For the Years Ended March 31	
	Notes	**2018**	2017
Net Sales	20	**P1,942,632,512**	P1,906,195,156
Cost of Goods Sold	21	**1,127,135,441**	1,082,318,984
Gross Profit		**815,497,071**	823,876,172
Other Income	22	**3,212,957**	4,646,751
		818,710,028	828,522,923
Operating Expenses	23, 33	**608,627,178**	602,522,976
Other Expenses	24	**6,744,008**	4,335,572
Finance Costs	14	**11,765,682**	9,958,631
Profit Before Tax		**191,573,160**	211,705,744
Income Tax Expense	27	**64,282,816**	65,146,081
Profit for the Year		**127,290,344**	146,559,663
Other Comprehensive Income			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation - net	15	**29,098,438**	(23,585,449)
Total Comprehensive Income		**P 156,388,782**	P 122,974,214

See Notes to Financial Statements.

MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)
STATEMENTS OF CHANGES IN EQUITY

		For the Years Ended March 31			
	Notes	**Share Capital**	**Share Premium**	**Retained Earnings**	**Total**
Balance, April 1, 2016		P149,026,500	P28,400,000	P256,610,181	P434,036,681
Profit for the year		-	-	146,559,663	146,559,663
Remeasurement of defined benefit obligation	15	-	-	(23,585,449)	(23,585,449)
Total comprehensive income		-	-	122,974,214	122,974,214
Transaction with owners:					
Issuance of stock dividends	18	22,000,000	-	(22,000,000)	-
Dividends declared	19	-	-	(35,915,387)	(35,915,387)
Balance, March 31, 2017		171,026,500	28,400,000	321,669,008	521,095,508
Profit for the year		-	-	127,290,344	127,290,344
Remeasurement of defined benefit obligation	15	-	-	29,098,438	29,098,438
Total comprehensive income		-	-	156,388,782	156,388,782
Transaction with owners:					
Issuance of stock dividends		28,973,500	-	(28,973,500)	-
Cash dividends declared	19	-	-	(51,295,883)	(51,295,883)
Balance, March 31, 2017		**P200,000,000**	**P28,400,000**	**P397,788,407**	**P626,188,407**

See Notes to Financial Statements.

MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)

STATEMENTS OF CASH FLOWS

		For the Years Ended March 31	
	Notes	**2018**	2017
Cash Flows from Operating Activities			
Profit before tax		**P191,573,160**	P211,705,744
Adjustments for:			
Sales returns and allowances and reversal - net	7	**(7,435,295)**	43,363,078
Depreciation and amortization	10, 11	**31,050,747**	29,786,568
Provision for inventory obsolescence	8	**48,171,976**	24,479,257
Finance costs	14	**11,765,682**	9,958,631
Retirement benefits cost	15	**19,615,222**	9,231,870
Gain on disposal of property and equipment - net	10	**(2,914,734)**	(3,790,483)
Unrealized foreign exchange loss - net		**503,615**	74,154
Doubtful accounts expense	7	**5,041,830**	-
Interest income	6	**(57,754)**	(89,767)
Operating cash flows before working capital changes		**297,314,449**	324,719,052
Decrease (Increase) in:			
Trade and other receivables		**(346,728,639)**	(114,861,366)
Inventories		**(1,398,331)**	(213,725,617)
Prepayments and other current assets		**(9,490,067)**	(3,958,970)
Due from related parties		**(6,502,007)**	(1,206,183)
Other non-current assets		**2,875**	(56,961)
Increase (Decrease) in:			
Trade, other payables and provisions		**118,326,612**	201,831,976
Other non-current liabilities		**-**	(6,732,659)
Due to related parties		**(3,642,225)**	5,519,203
Cash generated from operations		**47,882,667**	191,528,475
Interest income received		**57,754**	89,767
Finance costs paid		**(11,765,682)**	(9,958,631)
Contributions to the pension fund		**-**	(6,000,000.00)
Income taxes paid		**(47,367,575)**	(49,752,015)
Net cash from (used in) operating activities		**(11,192,836)**	125,907,596
Cash Flows from Investing Activities			
Additions to property and equipment	10	**(31,031,979)**	(24,444,215)
Proceeds from sale of property and equipment	10	**4,925,464**	4,178,429
Additions to intangible assets	11	**(73,531)**	(3,381,048)
Net cash used in investing activities		**(26,180,046)**	(23,646,834)
Cash Flows from Financing Activities			
Proceeds from short-term borrowings	14	**738,500,000**	473,750,000
Payment of short-term borrowings	14	**(731,025,000)**	(488,750,000)
Dividends paid	19	**(51,232,845)**	(35,816,605)
Net cash used in financing activities		**(43,757,845)**	(50,816,605)
Effects of Exchange Rate Changes		**154**	(50,659)
Net Increase (Decrease) in Cash		**(81,130,573)**	51,393,498
Cash, Beginning		**115,266,426**	63,872,928
Cash, End		**P 34,135,853**	P115,266,426

See Notes to Financial Statements.

RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As at March 31, 2018

MULTICARE PHARMACEUTICALS PHILIPPINES, INC.
(A Subsidiary of Lupin Holdings, B.V.)

Items		Amount
Unappropriated retained earnings, April 1, 2017		P321,669,008
Net Income based on the face of AFS		127,290,344
Add: Non-actual/unrealized loss net of tax		
Deferred tax asset charged to profit or loss	15,508,997	15,508,997
Net income actual/realized		142,799,341
Add (Less):		
Stock dividend declared during the period		(28,973,500)
Dividend declarations during the period		(51,295,883)
Unappropriated Retained Earnings, as adjusted, March 2018		**P384,198,966**

1. CORPORATE INFORMATION

Multicare Pharmaceuticals Philippines, Inc. (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 9, 2001, and started commercial operations on January 3, 2002. Its primary purpose is 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.

On March 25, 2009, the ultimate parent company, Lupin Limited (LL), through its wholly owned subsidiary, Lupin Holdings B.V. (LHBV), acquired 51% equity stake in the Company. LL is an Indian-based pharmaceutical company listed in the Bombay Stock Exchange that develops and markets a range of generic formulations and active pharmaceutical ingredients worldwide. LHBV is a company incorporated and domiciled in the Netherlands. The equity acquisition by LL gives the Company increased access to international research and development, world-class manufacturing capabilities which will further strengthen the Company's position in the local market.

The Company's registered office address and principal place of business is at the 26th Floor, Rufino Tower, 6784 Ayala Avenue, Makati City, Philippines.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC), and Standing Interpretations Committee (SIC), as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA), and adopted by the SEC.

Basis of Preparation and Presentation

The financial statements have been prepared on the historical cost basis, except for the following:

- certain financial instruments carried at amortized cost;
- inventories carried at the lower of cost and net realizable value;
- liabilities for cash-settled share-based payment arrangements measured at fair value; and
- the defined benefit obligation recognized at the net total of the present value of the retirement benefit obligation less the fair value of plan assets.

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 would be received to sell an asset or 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 consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of PFRS 2, leasing transactions that are within the scope of PAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in PAS 2 or value in use in PAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 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.

Functional and Presentation Currency

These financial statements are presented in Philippine Peso, the currency of the primary economic environment in which the Company operates. All amounts are rounded to the nearest peso, except when indicated.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective 2017

The Company adopted all accounting standards and interpretations as at March 31, 2018. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, were assessed to be applicable to the Company's financial statements, are as follows:

Amendments to PAS 7 — *Disclosure Initiative*

The amendments clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments require that liabilities arising from financing activities are disclosed, among others:

- changes from financing cash flows;
- changes arising from obtaining or losing control of subsidiaries or other businesses;
- the effect of changes in foreign exchange rates; and
- changes in fair values.

Liabilities arising from financing activities is defined as the cash flows, or future cash flows, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition.

A reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is not required.

Finally, changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments have no impact on the Group's consolidated financial statements as the Group does not enter in any debt financing.

Amendments to PAS 12 — *Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify the following aspects:

- Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The amendments have no impact on the Company's financial statements as the Company already assessed the sufficiency of future taxable profits in a way that is consistent with these amendments.

New Accounting Standard Effective after the Reporting Period Ended March 31, 2018

The Company will adopt the following PFRS once these become effective:

Amendments to PFRS 2 - *Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 include:

a. Accounting for cash-settled share-based payment transactions that contain a performance condition. The amendment added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments;

b. Classification of share-based payment transactions with net settlement features. The amendments have introduced an exception into PFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature;

c. Accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments have introduced the following clarifications:

   - On modifications, the original liability recognized in respect of the cash-settled share-based payment is derecognized and the equity-settled share-based payment is recognized at fair value at the modification date to the extent services have been rendered up to the modification date; and
   - Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in profit and loss immediately.

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

Management has assessed that the application of the amendments will not have a significant impact on the Company’s financial statements as the Company’s cash-settled shared based payments does not contain a performance condition.

Amendments to PFRS 4 - *Applying PFRS 9, 'Financial Instruments' with PFRS 4, 'Insurance Contracts'*

The amendments provide two (2) options for entities that issue insurance contracts within the scope of PFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income (OCI), some of the income or expenses arising from designated financial assets; this is the so-called overlay approach; and
- an optional temporary exemption from applying PFRS 9 for entities whose predominant activity is issuing contracts within the scope of PFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

An entity applies the deferral approach for annual periods beginning on or after January 1, 2018.

Management has assessed that the application of the amendments will not have a significant impact on the Company's financial statements as the Company does not issue insurance contracts.

PFRS 9 - *Financial Instruments (2014)*

This standard consists of the following three (3) phases:

<u>Phase 1: Classification and measurement of financial assets and financial liabilities</u>

With respect to the classification and measurement under this standard, all recognized financial assets that are currently within the scope of PAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are Solely Payments of Principal and Interest (SPPI) on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option;
- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, must be measured at fair value through other comprehensive income (FVTOCI), unless the asset is designated at FVTPL under the fair value option;
- All other debt instruments must be measured at FVTPL; and
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

This standard also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from PAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk for the liability. Under this standard, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under PAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under this standard reflects expected credit losses, as opposed to incurred credit losses under PAS 39. Under the impairment approach of this standard, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Given the nature of the Company's operations, it is expected that the new expected credit loss model under PFRS 9 will accelerate the recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

Based on Management's assessment, the recognition and measurement of the Company's financial assets and financial liabilities would be the same under both PAS 39 and PFRS 9.

Phase 3: Hedge accounting

The general hedge accounting requirements for this standard retain the three types of hedge accounting mechanism in PAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of economic relationships. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

The future adoption of the standard will have no effect on the Company's financial statements as the Company does not have hedge accounting.

The standard is effective for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

PFRS 15 - *Revenue from Contracts with Customers*

The standard combines, enhances, and replaces specific guidance on recognizing revenue with a single standard. An entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

It defines a new five-step model to recognize revenue from customer contracts.

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment.

The standard is mandatory for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

The Management is still evaluating the impact of the new accounting standard on the Company's financial statements.

Amendments to PFRS 15 - *Clarifications to PFRS 15*

The amendments in the standard addresses three (3) topics namely identifying performance obligations, principal versus agent considerations, and licensing and provide some transition relief for modified contracts and completed contracts.

- added a clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs;
- clarification on how to assess control in in determining whether a party providing goods or services is a principal or an agent; and
- clarification on when an entity's activities significantly affect the intellectual property by amending the application guidance.

The standard is mandatory for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted.

Management already assessed the impact of this standard and concluded that there is no effect on the Company's financial statements as the Company does not have complex revenue transactions.

PIC Q&A No. 2016-04 - *Application of PFRS 15, "Revenue from Contracts with Customers", on Sale of Residential Properties under Pre-Completion Contracts*

This interpretation applies to the accounting for revenue from the sale of a residential property unit under pre-completion stage (i.e., construction is on-going or has not yet commenced) by a real estate developer that enters into a Contract to Sell with a buyer, and the developer has determined that the contract is within the scope of PFRS 15 by satisfying all the criteria in paragraph 9 of PFRS 15.

This interpretation does not deal with the accounting for other aspects of real estate sales such as variable considerations, financing components, commissions and other contract costs, timing of sales of completed properties, etc.

The interpretation is effective on the same date as the effective date of PFRS 15.

The Company's initial assessment of potential impact of adopting PFRS 15 to its financial statements in the future provides that its current revenue recognition policy will not be significantly affected. The Company will continue its assessment and finalize the same upon effective date of the new standard.

PFRS 16 - *Leases*

This standard specifies how a PFRS reporter will recognize, measure, present and disclose leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use. An asset is typically identified by being explicitly specified in a contract, but an asset can also be identified by being implicitly specified at the time it is made available for use by the customer.

Lessors continue to classify leases as operating or finance, with PFRS 16's approach to lessor accounting substantially unchanged from its predecessor, PAS 17.

The standard is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted only if PFRS 15.

Future adoption of this standard will result in the recognition of right-of-use asset, lease liability and additional disclosures in the Company's financial statements.

Annual Improvements to PFRSs 2014-2017 Cycle

The annual improvements address the following issues:

Amendments to PFRS 1 - *First-time Adoption of International Financial Reporting Standards*

The amendments include the deletion of short-term exemptions stated in the appendix of PFRS 1, because they have now served their intended purpose. The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

Management has assessed that the application of the amendments will not have a significant impact on the Company's financial statements as the Company is not a first time adopter of PFRS.

Amendments to PAS 28 - *Investments in Associates and Joint Ventures*

The amendments clarify that the election to measure at FVTPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments are effective for annual periods beginning on or after January 1, 2018 with earlier application permitted.

Management has assessed that the application of the amendments will not have a significant impact on the Company's financial statements as the Company has no investments in associates and joint ventures.

Amendments to PAS 40 - *Investment Property-Transfers of Investment Property*

The amendments in Transfers of Investment Property (Amendments to IAS 40) are:

- Stating that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) - (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

The amendments are effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

Management has assessed that the application of the amendments will not have a significant impact on the Company's financial statements as the Company has no investment property.

Philippine Interpretation IFRIC 22 - *Foreign Currency Transactions and Advance Consideration*

The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability.

The interpretation is effective for periods beginning on or after January 1, 2018. Earlier application is permitted.

Management has assessed that the application of the interpretation will not have a significant impact on the Company's financial statements as the Company does not have advance considerations for non-monetary assets or non-monetary liabilities.

New Accounting Standards Effective After the Reporting Period Ended March 31, 2018 - Adopted by FRSC but pending for approval by the Board of Accountancy

The Company will adopt the following IFRS once these become effective:

PFRS 9 - *Prepayment Features with Negative Compensation*

The amendments include:

Changes regarding symmetric prepayment options

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain).

Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

Clarification regarding the modification of financial liabilities

The final amendments also contain a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortized cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognizes any adjustment to the amortized cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortized cost amount.

The amendments are effective for periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management does not anticipate that the application of the new accounting standard will have a significant impact on the Company's financial statements as the Company has no financial liability with prepayment features with negative compensation.

PAS 28 - *Long-term Interests in Associates and Joint Ventures*

The amendments are:

Clarification that an entity applies PFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments are effective for period beginning on or after January 1, 2019. Earlier application is permitted.

The future adoption of the amendments will have no effect on the Company’s financial statements as the Company does not have long-term interests in associates and in joint ventures.

IFRIC 23 - *Uncertainty over Income Tax Treatments*

This interpretation applies in determining the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under PAS 12 - *Income Taxes.*

An entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing.

- If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings.
- If the entity concludes that it is not probable that a particular tax treatment is accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

An entity has to reassess its judgements and estimates if facts and circumstances change.

The interpretation is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Management is still evaluating the impact of the new Interpretation on the Company's determination of taxable profit/loss, unused tax losses, unused tax credit and tax rate.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial Assets

Initial recognition of financial assets

Financial assets are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Company's financial assets, except for financial assets classified as FVTPL.

Classification and subsequent measurement

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The financial assets of the Company consist only of loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables market. After initial recognition, loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment and are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Company's financial assets classified under this category include cash, trade and other receivables, and due from related parties and security deposit.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment

For financial assets carried at amortized cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the financial asset's original effective interest rate; i.e., the effective interest rate computed at initial recognition.

The carrying amount of financial assets carried at amortized cost is reduced directly by the impairment loss with the exception of trade receivables, wherein the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, these are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

Derecognition of financial assets

The Company derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risk and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset.

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Inventories

Inventories are initially measured at cost. Subsequently, inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. Net realizable value is the estimated selling price less all estimated costs of completion and cost to make the sale.

When the net realizable value 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 net realizable value, 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 as an expense 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 year or the Company's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as non-current assets.

Property and Equipment

Property and equipment are initially measured at cost. At the end of each reporting period, items of property and equipment are measured at cost less any subsequent accumulated depreciation, amortization, and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of an asset consists of its purchase price, professional fees, borrowing costs for qualifying assets, and other costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

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

Transportation equipment	5 years
Office furniture and fixtures	5 years
Warehouse equipment	3 years
Office equipment	5 years

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

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.

Intangible Assets

Acquired intangible assets

Intangible assets that are acquired by the Company with finite useful lives are initially measured at cost. At the end of each reporting period items of intangible assets acquired are measured at cost less accumulated amortization and accumulated impairment losses. Cost includes purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of preparing the intangible asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method used for intangible assets with finite useful lives are reviewed at least at each reporting date. Changes in the expected useful lives or the expected pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss consistent with the function of the intangible asset.

Amortization of computer software is computed using the straight-line method over the estimated useful life of three years.

Marketing rights are being amortized on a straight-line basis over a period of ten years based on the agreement.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Company assesses whether there is any indication that any of its tangible and intangible 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.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

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.

Financial Liabilities and Equity Instruments

<u>Classification as debt or equity</u>

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

<u>Financial liabilities</u>

Initial recognition

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognized at fair value. Transaction costs are included in the initial measurement of the Company's financial liabilities, except for any debt instruments classified as at FVTPL.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities
Since the Company does not have financial liabilities classified as at FVTPL, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Subsequent measurement

Since the Company does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

<u>Offsetting financial instruments</u>

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Derecognition

Financial liabilities are derecognized by the Company when the obligation under the liability is discharged, cancelled, or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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.

Share capital

Share capital 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.

Share premium

Share premium represents the excess amount paid by shareholders over the par-value price of a stock issue. Share premium can arise from issuing either preferred or common stock.

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

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.

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.

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.

Post-employment benefits

Defined benefit plan

The Company classifies its retirement benefit as defined benefit plans. Under defined benefit plans, 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 statement of financial position with a charge or credit recognized in OCI in the period in which they occur.

Remeasurement recognized in OCI 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.
- Remeasurement.

The Company presents the first two components of defined benefit costs in profit or loss in the line item salary, wages and employee benefits. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statements of financial position represents the actual deficit or surplus in the Company's defined benefit plans.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods or services provided in the normal course of business.

Sale of goods

Revenue from the sale of goods, in the course of ordinary activities, is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and distribution costs based on the terms of the agreement.

Revenue from sale of goods is recognized when all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods or provided services as per relevant contract;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold or services provided;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

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.

Rental income

Revenue recognition for rental income is disclosed in the Company's policy for leases.

Other income

Other income is recognized when earned based on provisions of the related contract.

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 statements of comprehensive income are presented using the function of expense method. Cost of sales 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.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Company as lessor

Operating lease

Rental income from operating leases is recognized as income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Initial direct costs incurred by Company in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income.

The Company as lessee

Operating lease

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Foreign Currency Transactions and Translation

Transactions in currencies other than 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 that are denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period.

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

A related party transaction is a transfer of resources, services or obligations between the Company and a related party, 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. An entity that is 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.

Taxation

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

<u>Current tax</u>

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 liability for current tax is calculated using the regular corporate 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.

<u>Deferred tax</u>

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, while 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.

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 asset 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the year

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside of profit or loss (whether in OCI or directly in equity), in which case the taxes are also recognized outside profit or loss.

Events After the Reporting Period

The Company identifies events after the end of each reporting period as those events, both favorable and unfavorable that occurs 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 entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

Classification of lease as operating lease

Leases are classified as operating leases whenever the terms of the lease do not transfer substantially all the risk and rewards of the ownership to the lessee. Judgment is used in determining whether the significant risk and rewards of ownership are transferred to the lessee. Failure to make the right judgment would directly affect the Company's assets and liabilities.

Management believes that the lease agreements entered into by the Company did not transfer substantially all the risk and rewards over the leased assets. Accordingly, lease agreements are classified as operating lease.

The Company's operating leases are disclosed in Note 26.

Discount rate used to determine the carrying amount of the Company's defined benefit obligation

The Company's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the report period on high quality corporate bonds. Significant judgment is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

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.

Estimating useful lives of assets

The useful lives of the Company's property and equipment and intangible assets with definite life are estimated based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the Company's assets. In addition, the estimation of the useful lives is based on the Company's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and intangible assets would increase the recognized operating expenses and decrease non-current assets.

The carrying amounts of the Company's property and equipment amounted to P59,765,898 and P54,681,790 as at March 31, 2018 and 2017, respectively, as disclosed in Note 10. The carrying amounts of the Company's intangible assets amounted to P27,564,392 and P34,604,467 as at March 31, 2018 and 2017, respectively, as disclosed in Note 11.

Total accumulated depreciation of property and equipment as at March 31, 2018 and 2017 amounted to P86,506,374 and P78,661,721, respectively, as disclosed in Note 10, while total accumulated amortization of intangible assets as at March 31, 2018 and 2017 amounted to P28,737,074 and P21,623,468, respectively, as disclosed in Note 11.

Asset impairment

The Company performs an impairment review when certain impairment indicators are present.

Determining the recoverable amounts of property and equipment and intangible assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that property and equipment associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges.

As at March 31, 2018 and 2017, Management believes that the recoverable amounts of property and equipment and intangible assets exceed its carrying amounts. Accordingly, no impairment loss was recognized in both years.

Estimating allowances for doubtful accounts, sales discounts and sales returns

The Company estimates the allowance for doubtful accounts related to its trade and other receivables and receivables due from a related party based on assessment of specific accounts when the Company has information that certain counterparties are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the counterparties and the counterparties' current credit status based on third party credit reports and known market factors. The Company used judgment to record specific reserves for counterparties against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated.

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for doubtful accounts would increase the recognized operating expenses and decrease current assets.

The Company provides for an allowance for sales returns for goods reported to be returned to the Company where receipt of such goods is expected to be made subsequent to year-end.

The Company provides for an allowance for sales discounts for its various selected customers. This is estimated based on certain percentages of sales depending on the agreement with the customers.

The total carrying amounts of trade and other receivables as at March 31, 2018 and 2017 were P1,107,587,706 and P758,465,602 respectively, which were net of the related allowances for doubtful accounts, sales returns and discounts amounting to P50,297,618 and P52,691,083, respectively, as disclosed in Note 7. Furthermore, total due from related parties as at March 31, 2018 and 2017 were P9,616,126 and P3,114,119, respectively, as disclosed in Note 17. Management believes that the total due from related parties are fully collectible.

Estimating net realizable value of inventories

The net realizable value of inventories represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Company determines the estimated selling price based on the recent sale transactions of similar goods with adjustments to reflect any changes in economic conditions since the date the transactions occurred. The Company records a provision for the excess of cost over net realizable value of inventories. While the Company believes that the estimates are reasonable and appropriate, significant differences in the actual experience or significant changes in estimates may materially affect the profit or loss and equity.

Total inventories recognized in the Company's statements of financial position amounting to P477,358,629 and P524,132,274 were net of the related allowance for inventory obsolescence of P72,131,326 and P23,959,350 as at March 31, 2018 and 2017, respectively, as disclosed in Note 8.

Management believes that the total cost of inventories recognized in the Company's statements of financial position is higher than its net realizable value.

Deferred tax assets

The Company reviews the carrying amounts at the end of 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, 2018 and 2017 amounted to P24,240,810 and P8,731,813, respectively, as disclosed in Note 28.

Post-employment and other employee benefits

The determination of the retirement obligation cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include discount rates, mortality rates and rates of compensation increase, among others. Actual results that differ from the assumptions are recognized in OCI and therefore, generally affect the recognized expense 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 obligations.

The retirement benefit expense charged to operations amounted to P19,615,222 and P9,231,870 in 2018 and 2017, respectively, as disclosed in Note 15. The carrying amounts of the Company's retirement benefit obligation were P44,710,204 and P54,193,420 as at March 31, 2018 and 2017, respectively, as disclosed in Note 15.

6. CASH

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

	2018	2017
Cash in banks	**P32,465,895**	P 849,071
Check on hand	**1,669,958**	114,417,355
	P34,135,853	P115,266,426

Cash in banks earned an average annual interest rate of 0.04% and 0.25% in 2018 and 2017, respectively. Interest income from cash in bank amounted to P57,754 and P89,767 in 2018 and 2017, respectively, as disclosed in Note 22. Checks on hand are undeposited checks from a customer on account and only deposited and cleared subsequent to March 31, 2018 and 2017 amounting to P1,669,958 and P114,417,355, respectively.

7. TRADE AND OTHER RECEIVABLES - net

The Company's trade and other receivables consist of:

	2018	2017
Trade receivables	**P1,085,792,608**	P766,345,026
Less: Allowance for doubtful accounts	**7,646,233**	2,604,403
Allowance for sales returns and discount	**42,651,385**	50,086,680
	1,035,494,990	713,653,943
Advances to employees and others	**72,092,716**	44,811,659
	P1,107,587,706	P758,465,602

The average credit period taken on sale of goods and services is 60 to 90 days. No interest is charged on these receivables.

Advances to officers and employees are non-interest bearing and are normally liquidated within one month. These are allowances provided to qualified employees for purposes of performing official business transactions.

Movements in the allowance for doubtful accounts as at March 31 are as follows:

	Note	**2018**	2017
Balance, April 1		**P2,604,403**	P2,604,403
Doubtful accounts expense	23	**5,041,830**	-
Balance, March 31		**P7,646,233**	P2,604,403

In 2017, the Company did not recognize any doubtful account expense because Management believes that the balance of allowance for doubtful accounts carry forward from 2016 is sufficient to reflect possible uncollectible balance.

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 concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, Management believes that there is no further allowance for doubtful accounts required in excess of P7,646,233 and P2,604,403 as at March 31, 2018 and 2017, respectively.

The Company provided an allowance for sales returns for near expiring goods reported to be returned within the month, after the period ended March 31, 2018 and 2017, by some of its customers. The Company provided an allowance for sales discounts based on the agreement per type of products for bulk orders and early payments. The Company estimates the allowance for sales discount based on prior quarter realized discounts.

Movements in the allowance for sales returns and discounts are as follows:

	Note	2018	2017
Balance, April 1		**P 50,086,680**	P 6,723,602
Provision for sales returns and discount	20	**575,977,737**	595,542,901
Reversal of provision		**(583,413,032)**	(552,179,823)
		(7,435,295)	43,363,078
Balance, March 31		**P 42,651,385**	P 50,086,680

Reversal of provision pertains to the actual return of inventories and actual discounts received during the year.

8. **INVENTORIES** - net

Details of the Company's inventories are as follows:

	2018	2017
Inventories	**P520,458,618**	P532,363,841
Less: Allowance for inventory obsolescence	**72,131,326**	23,959,350
	448,327,292	508,404,491
Semi-finished, raw and packaging materials - at cost	**29,031,337**	15,727,783
	P477,358,629	P524,132,274

The Company provided an allowance for sales return for near expiring goods reported to be returned within the month, after the period ended March 31, 2018.

In 2018 and 2017, the cost of inventories recognized as an expense during the year was P1,127,135,441 and P1,082,318,984 respectively, as shown in Note 21. This includes provision for inventory obsolescence amounting to P48,171,976 and P24,479,257 in 2018 and 2017, respectively. Write-off in the allowance of inventory obsolescence represent actual disposals of inventories.

The movements in the allowance for inventory obsolescence:

	Note	2018	2017
Balance, April 1		**P23,959,350**	P27,410,489
Provision for inventory obsolescence	21	**48,171,976**	24,479,257
Write off		**-**	(27,930,396)
Balance, March 31		**P72,131,326**	P23,959,350

All inventories are valued at lower of cost or net realizable value. Management believes that the net realizable values of the Company's inventories exceed their carrying values, accordingly, no loss on decline in value was recognized as at March 31, 2018 and 2017.

In 2017, the Company was able to secure a certificate of destruction from the BIR amounting P27,930,396 which was written off from the balance of inventory account.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of the Company's prepaid and other current assets are shown below:

	2018	2017
Prepaid brokerage and commission	**P 7,927,083**	P -
Deferred input value-added taxes (VAT)	**7,245,282**	5,863,630
Prepaid promotional expenses	**5,619,745**	4,716,717
Prepaid business permits	**5,417,536**	5,621,665
Prepaid insurance	**1,020,943**	992,326
Prepaid subscription	**182,645**	1,315,181
Others	**1,019,134**	432,782
	P28,432,368	P18,942,301

Prepaid brokerage and commission pertains to upfront segment of sales commission to Ambica International Corporation amounting to P15,220,000, inclusive of VAT resulting from the assignment of oncology product, "Certificate of Product Registration" to the Company. This commission will be changed to operating expenses for two years effective June 2017.

Others are composed mainly of prepaid medical supplies and non-trade receivables.

10. PROPERTY AND EQUIPMENT - net

Movements in the carrying amounts of the Company's property and equipment are as follows:

	Note	Transportation Equipment	Office Equipment, & Furniture and Fixtures	Leasehold Improvements	Warehouse Equipment	Total
Cost						
Balance, April 1, 2016		P95,983,830	P19,119,567	P12,112,502	P 2,429,302	P129,645,201
Additions		23,374,018	1,070,197	-	-	24,444,215
Disposals		(20,619,097)	(126,808)	-	-	(20,745,905)
Balance, March 31, 2017		98,738,751	20,062,956	12,112,502	2,429,302	133,343,511
Additions		28,986,709	707,687	1,172,929	164,654	31,031,979
Disposals		(18,033,138)	(70,080)	-	-	(18,103,218)
Balance, March 31, 2018		109,692,322	20,700,563	13,285,431	2,593,956	146,272,272
Accumulated depreciation						
Balance, April 1, 2016		49,173,569	15,872,082	9,376,146	1,702,444	76,124,241
Depreciation	23	19,273,576	2,256,394	1,262,934	102,535	22,895,439
Disposals		(20,231,151)	(126,808)	-	-	(20,357,959)
Balance, March 31, 2017		48,215,994	18,001,668	10,639,080	1,804,979	78,661,721
Depreciation	23	20,788,366	1,073,708	1,397,555	677,512	23,937,141
Disposals		(16,023,052)	(69,436)	-	-	(16,092,488)
Balance, March 31, 2018		52,981,308	19,005,940	12,036,635	2,482,491	86,506,374
Carrying Amounts March 31, 2018		**P56,711,014**	**P 1,694,623**	**P 1,248,796**	**P 111,465**	**P 59,765,898**
Carrying Amounts March 31, 2017		P50,522,757	P 2,061,288	P 1,473,422	P 624,323	P 54,681,790

Proceeds from disposals totaled P4,925,464 and P4,178,429 for 2018 and 2017, respectively. Gain on disposal of property and equipment amounted to P2,914,734 and P3,790,483 in 2018 and 2017, respectively, as disclosed in Note 22.

Management believes that there is no indication of impairment on its property and equipment for both years.

11. INTANGIBLE ASSETS - net

Movements in the carrying amounts of the Company's intangible assets are as follows:

	Note	Marketing Rights	Computer Software	Total
Cost				
Balance, April 1, 2016		P45,000,000	P 7,846,887	P52,846,887
Additions		-	3,381,048	3,381,048
Balance, March 31, 2017		45,000,000	11,227,935	56,227,935
Additions		-	73,531	73,531
Balance, March 31, 2018		45,000,000	11,301,466	56,301,466
Accumulated Amortization				
Balance, April 1, 2016		10,491,668	4,240,671	14,732,339
Amortization	23	4,500,000	2,391,129	6,891,129
Balance, March 31, 2017		14,991,668	6,631,800	21,623,468
Amortization	23	4,500,000	2,613,606	7,113,606
Balance, March 31, 2018		19,491,668	9,245,406	28,737,074
Carrying Amounts March 31, 2018		**P25,508,332**	**P 2,056,060**	**P27,564,392**
Carrying Amounts March 31, 2017		P30,008,332	P 4,596,135	P34,604,467

Management believes that there is no indication of impairment on its intangible assets in both years.

Marketing rights

Marketing rights pertain to the consideration given to AstraZeneca Pharmaceuticals (Phils.), Inc. (APPI) in order to execute the following in favor of the Company:

- sell, transfer and convey the trade name "Multicare Enterprises" as duly registered with the Department of Trade and Industry;
- execute a License and Supply Agreement on certain pharmaceutical products; and
- assign to the Company its supply and other agreements, including product registrations and brand names with various suppliers.

The agreement shall be effective for a period of ten years beginning June 11, 2012 after which, unless otherwise terminated by either party in writing six months prior to effective date of termination, it is automatically renewed for the same period. The marketing rights have been amortized over a ten-year period.

In 2014, the Company acquired additional marketing rights of certain brands for oncology from another local company.

Royalties

In consideration for the exclusive right to distribute certain pharmaceutical products and use existing trademarks and brands owned by APPI, the Company pays APPI royalty fees subject to certain terms and conditions. Royalty expense recognized in profit or loss for the years ended March 31, 2018 and 2017 amounted to P4,562,522 and P4,832,525, respectively, as shown in Note 23. Related liability amounted to P1,408,231 and P1,460,130 as at March 31, 2018 and 2017, respectively, as part of accrued expenses in Note 13.

12. OTHER NON-CURRENT ASSETS

The Company's other non-current assets consist of security deposits amounted to P2,286,292 and P2,289,167 in 2018 and 2017, respectively, as disclosed in Note 26.

13. TRADE AND OTHER PAYABLES

The Company's trade and other payables consist of:

	Note	2018	2017
Trade payables - third parties		**P204,487,547**	P185,876,492
Trade payables - related parties	17	**356,141,258**	253,568,942
Non-trade payables:			
Accrued expenses		**60,723,984**	75,934,515
Output VAT - net		**38,399,575**	19,954,196
Withholding and other government payables		**2,552,368**	5,913,440
Advances from customers		**1,608,433**	-
Non-trade vendors		**387,200**	5,269,559
Others		**1,867,697**	1,084,176
		P666,168,062	P547,601,320

Trade payables have an average 30-90 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.

Output VAT payable is presented net of input VAT of P28,383,773 and P22,436,155 in 2018 and 2017, respectively.

Details of accrued expenses are shown below.

	Notes	2018	2017
Salaries and employee benefits		**P32,689,228**	P52,056,071
Distributor reimbursable costs		**10,155,817**	7,167,427
Professional fees		**1,535,367**	3,593,999
Utilities		**5,661,755**	320,436
Advertising and promo expense		**3,909,428**	1,574,909
Sales force allowance		**2,238,357**	-
Royalties	11	**1,408,231**	1,460,130
Distribution fees		**1,208,570**	2,498,572
Management fees		**899,754**	3,225,948
Rent	26	**129,398**	172,290
Others		**888,079**	3,864,733
		P60,723,984	P75,934,515

Sales force allowance pertains to allowacnes given to the personnel of Zuellig, assigned to the Company.

Other accrued expenses mainly consist of unpaid liabilities on outside services.

14. SHORT-TERM BORROWINGS

The Company has various secured and unsecured short-term loans obtained from local and foreign banks used for working capital purposes. These loans bear annual interest rates ranging from 3.5% to 5.0%, with maturities ranging from one month to one year.

Movement in the balance of short-term borrowings is as follows:

	2018	2017
Balance, April 1	**P353,250,000**	P368,250,000
Proceeds	**738,500,000**	473,750,000
Repayments	**(731,025,000)**	(488,750,000)
Balance, March 31	**P360,725,000**	P353,250,000

The short-term loans from a local bank is secured by assignment of acceptable receivables from certain customers. Accounts receivable assigned as collateral for short-term borrowings amounted to P243,974,269 and P159,958,679 as of March 31, 2018 and 2017, respectively.

Finance costs recognized in profit and loss pertaining to the above loans for the year ended March 31, 2018 and 2017 amounted to P11,765,682 and P9,958,631, respectively.

15. RETIREMENT BENEFIT PLANS

Requirement of Republic Act (RA) 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 19. 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 (1/2) 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, 2018 and 2017, respectively.

Defined Benefit Plans

The Company sponsors funded, non-contributory defined benefit plans for all regular and permanent employees. Under the plan, the employees are entitled to retirement benefits equivalent to 200% of latest monthly salary upon reaching the retirement age of 60 years subject to other terms and conditions.

The plans typically expose the Company to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently, the plan consists of fixed income securities and other investments.

Interest risk

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

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.

The risk relating to benefits to be paid to the dependents of plan members (widow and orphan benefits) is re-insured by an external insurance company.

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

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out by an independent actuary as at March 31, 2018. The present value of the defined benefit obligation, and the related current 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	
	2018	2017
Discount rate	**7.16%**	5.03%
Expected rate of salary increases	**7.00%**	7.00%

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

	2018	2017
Current service cost	**P16,879,519**	P 7,776,244
Net interest expense	**2,735,703**	1,455,626
Components of defined benefit costs recognized in profit or loss	**19,615,222**	9,231,870
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**32,213**	847,593
Actuarial (gains) losses:		
from changes in financial assumptions	**(20,619,945)**	2,216,656
from experience adjustments	**(8,510,706)**	20,521,200
Components of defined benefit costs recognized in OCI	**(29,098,438)**	23,585,449
	(P 9,483,216)	P32,817,319

Retirement costs charged for the year 2018 and 2017 are recognized in the operating expenses, as disclosed in Note 23.

The amount included in the statements of financial position arising from the Company's obligations in respect of its defined benefit retirement benefit plans is as follows:

	March 31	
	2018	2017
Present value of defined benefit obligations	**P68,425,783**	P77,183,214
Fair value of plan assets	**23,715,579**	22,989,794
Net liability arising from defined benefit obligation	**P44,710,204**	P54,193,420

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

	2018	2017
Balance, April 1	**P77,183,214**	P50,918,356
Current service cost	**16,879,519**	7,776,244
Interest cost	**3,882,316**	2,663,030
Remeasurement losses (gains):		
Actuarial gains and losses arising from changes in financial assumptions	**(20,619,945)**	2,216,656
Actuarial (gains) and losses arising from experience adjustments	**(8,510,706)**	20,521,200
Benefits paid from plan assets	**(388,615)**	(6,912,272)
Balance, March 31	**P68,425,783**	P77,183,214

The weighted average duration of the defined benefit obligation is 11.8 years.

Movements in the net remeasurement loss recognized to other comprehensive income are as follows:

	2018	2017
Balance, April 1	**P12,051,655**	(P11,533,794)
Remeasurement (gain) loss	**(29,098,438)**	23,585,449
Balance, March 31	**(P17,046,783)**	P12,051,655

Movements in the fair value of plan assets in the current period are as follow:

	2018	2017
Balance, April 1	**P22,989,794**	P23,542,255
Interest income	**1,146,613**	1,207,404
Contributions from the employer	**-**	6,000,000
Benefits paid from plan assets	**(388,615)**	(6,912,272)
Remeasurement of gains		
Return on plan assets	**(32,213)**	(847,593)
Balance, March 31	**P23,715,579**	P22,989,794

The Company's fund is in a form of a trust being maintained by a local bank.

The overall expected rate of return on plan assets is based on portfolio as a whole and not on the sum of the returns of individual asset categories. The return is based exclusively on historical returns, without adjustment.

The significant information of the fund as at March 31, 2018 and 2017 follows:

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Total assets	**P23,733,460**	**P23,733,460**	P23,008,186	P23,008,186
Total liabilities	**17,881**	**17,881**	18,392	18,392
Net assets	**P23,715,579**	**P23,715,579**	P22,989,794	P22,989,794

Actual return on plan assets amounted to gain of P1,114,400 and P359,811 in 2018 and 2017, respectively. The analysis of the fair value of plan assets and the expected rate of return at the reporting date was as follows:

	Fair Value	
	2018	2017
Mark to market securities	**P21,429,696**	P22,911,121
Fixed income securities	**2,303,764**	97,065
	P23,733,460	P23,008,186

Marked to market securities consist of equity investments, debt instruments and unified investment trust funds. Fixed income securities consist of investments in time deposits and savings account.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses 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.

	2018		2017	
	Change in Assumption	**Increase (Decrease) on Retirement Benefit Obligation**	Change in Assumption	Increase (Decrease) on Retirement Benefit Obligation
Discount rate	**+100 basis points**	**(P 7,393,145)**	+100 basis points	(P10,291,470)
	-100 basis points	**8,740,516**	-100 basis points	12,459,223
Expected salary growth rate	**+100 basis points**	**7,965,114**	+100 basis points	11,256,614
	-100 basis point	**(6,905,015)**	-100 basis point	(9,573,906)
No attrition rates	**34.5%**	**23,574,706**	49.7%	38,323,697

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.

The Company has no asset-liability matching strategy and does not expect to make a contribution to the defined benefit plan on the next financial year.

The Company's demographic information of its qualified employees is as follows:

	2018	2017
Average age	**34.2**	33.3
Average years of service	**4.9**	4.3

16. SHARE-BASED PAYMENTS

LL implemented "Lupin Subsidiary Companies Employees Stock Option Plan 2005" (SESOP 2005) and "Lupin Subsidiary Companies Employees Stock Option Plan 2011" (SESOP 2011) in earlier years; and "Lupin Subsidiary Companies Employees Stock Option Plan 2014" (SESOP 2014) in the current year, as approved by the Shareholders of LL and the Remuneration / Compensation / Nomination and Remuneration Committee of the Board of Directors of LL.

The options are granted at an exercise price at the time of such grants. Each option entitles the holder to exercise the right to apply for and seek allotment of one equity share of LL. The options have vesting periods as stated above in accordance with the vesting schedule as per the said plans with an exercise period of ten years from the respective grant dates.

The following share based payment arrangements were in existence during the current and prior years:

	Number	Grant Date	Expiry Date	Exercise Price	Fair value at grant date
Granted on August 14, 2014	3,812	8/14/14	8/11/24	P1,164.80	P500.06
Granted on August 14, 2014	3,812	8/14/14	8/11/24	1,164.80	540.25
Granted on August 14, 2014	3,812	8/14/14	8/11/24	1,164.80	567.91
Granted on August 14, 2014	3,814	8/14/14	8/11/24	1,164.80	592.58
Granted on April 1, 2016	1,535	4/1/16	3/30/26	1,479.25	402.08
Granted on April 1, 2016	767	4/1/16	3/30/26	1,479.25	466.58
Granted on April 1, 2016	768	4/1/16	3/30/26	1,479.25	532.49
Granted on August 25, 2016	256	8/25/16	8/23/26	1,521.70	415.37
Granted on August 25, 2016	128	8/25/16	8/23/26	1,521.70	484.03
Granted on August 25, 2016	128	8/25/16	8/23/26	1,521.70	553.99
Granted on January 3, 2017	1,067	1/3/17	1/1/27	1,505.75	415.29
Granted on January 3, 2017	1,067	1/3/17	1/1/27	1,505.75	488.87
Granted on January 3, 2017	1,067	1/3/17	1/1/27	1,505.75	548.62
Granted on January 3, 2017	1,069	1/3/17	1/1/27	1,505.75	610.73
Granted on January 3, 2017	703	1/3/17	1/1/27	1,505.75	415.29
Granted on January 3, 2017	703	1/3/17	1/1/27	1,505.75	488.87
Granted on January 3, 2017	703	1/3/17	1/1/27	1,505.75	548.62
Granted on January 3, 2017	705	1/3/17	1/1/27	1,505.75	610.73

All options vested on their date of grant and expire within 10 years of their issue, or one month after the resignation of the executive or senior employee, whichever is the earlier.

The fair value of stock options granted in 2017 was estimated on the date of grant using the Black-Scholes option pricing model.

The share-based compensation expense recognized by the Company related to stock options amounted to P2,233,586 and P2,295,010 in 2018 and 2017, respectively, as disclosed in Note 17.

As at March 31, 2018 and 2017, a total of P392,127 and P4,881, respectively, is still outstanding as disclosed in Note 17.

17. RELATED PARTY TRANSACTIONS

Details of the transactions and outstanding balances with related parties as at and for the years ended March 31, 2018 and 2017 are as follows:

Category	Amount of Transactions 2018	Amount of Transactions 2017	Outstanding Receivable (Payable) 2018	Outstanding Receivable (Payable) 2017	Terms	Conditions	Ref
Fellow Subsidiaries							
Advances	**P 6,241,645**	P 966,183	**P 8,585,238**	P 2,434,119	To be collected in cash	Unsecured, no impairment	(a),
Purchases	**344,860,640**	439,051,442	**(323,697,070)**	(236,954,880)	Payable on cash and on demand, non-interest bearing	Unsecured	Note 21
Management fees	**25,006,990**	25,345,046	**(6,595,729)**	(10,539,727)	Payable on cash and on demand, non-interest bearing		(c), Note 23
Rental income	**240,000**	240,000	**920,000**	680,000	Payable on cash and on demand, non-interest bearing	Unsecured, no impairment	(d), Note 22
Ultimate Parent Company							
Advances	**110,888**	-	**110,888**	-	Payable on cash and on demand	Unsecured, no impairment	(a)
Purchases	**67,606,963**	39,805,849	**(32,444,188)**	(16,614,062)	Payable on cash and on demand, non-interest bearing	Unsecured	Note 21
IT expense reimbursement	**2,259,224**	7,872,843	**(985,034)**	(806,868)	Payable on cash and on demand, non-interest bearing	Unsecured	(e)
Shared based payment Payable	**2,233,586**	2,295,010	**(392,127)**	(4,881)	Payable on cash and on demand, non-interest bearing	Unsecured, no impairment	Note 16
Individual Shareholder							
Rental	**(3,638,571)**	(3,638,571)	**-**	-	Payable on cash and on demand, non-interest bearing	Unsecured	(b)
Retirement fund							
Contributions to the fund	-	6,000,000	**-**	-			

Outstanding balance of related party receivables and payables as at March 31, 2018 and 2017 are as follows:

	Note	2018	2017
Due from related parties		**P 9,616,126**	P 3,114,119
Trade payables - related parties	13	**356,141,258**	253,568,942
Due to related parties		**7,972,890**	11,351,476

a. Advances and payables pertain to cost reimbursement for Lupin Philippines, Inc. employees providing services to the Company and payment for rent and utilities in behalf of Lupin Philippines, Inc., a fellow subsidiary and Lupin Limited., the ultimate parent.

b. The Company leases an extension office and warehouse space from one of its stockholders, as disclosed in Note 26.

c. Management fees refers to cross charges of expenses from Japan regional office included as part of management fees, as disclosed in Note 23.

d. Rental income is the amount billed for the portion of office space occupied by Lupin Philippines, Inc.

e. IT expense reimbursements pertains billed charges from Lupin Limited for the share of related expenses pertaining to the Company.

Retirement Benefit Plan

The Company established a retirement benefit plan for the benefits of its employees. Details of the retirement benefit plan are disclosed in Note 15.

Remuneration of Key Management Personnel

The remuneration of the directors and other members of key management personnel of the Company are set out below in aggregate for each of the categories specified in PAS 24, *Related party disclosures.*

	Notes	2018	2017
Short-term employee benefits	23	**P22,014,197**	P19,687,699
Share based payments	16, 23	**2,233,586**	2,295,010
Total		**P24,247,783**	P21,982,709

18. SHARE CAPITAL

Details of share capital are as follows:

	2018		2017	
	No. of Shares	Amount	No. of Shares	Amount
Authorized common shares, P10 par value each	**20,000,000**	**P200,000,000**	20,000,000	P200,000,000
Issued and fully paid, beginning	**17,102,650**	**171,026,500**	14,902,650	149,026,500
Stock issued arising from stock dividends	**2,897,350**	**28,973,500**	2,200,000	22,000,000
Issued and fully paid, end	**20,000,000**	**P200,000,000**	17,102,650	P171,026,500

The Company has one class of common shares which carry no right to fixed income.

On June 1, 2017, the Company's Board of Directors approved the declaration of stock dividends amounting to P28,973,500 to its shareholders of record as of March 31, 2017. The full issuance of shares of stock was subscribed and issued to its shareholders, as disclosed in Note 19.

In a special meeting held on July 11, 2017, the Board of Directors approved the increase of P10,000,000 authorized capital stock with a par value of P10 each and subsequently filed in the SEC in September 2017. As at March 31, 2018, the application for increase in authorized share capital is pending approval from SEC.

On May 25, 2016, the BOD authorized declaration of stock dividends at a rate of P1.48 per share amounting to P22,000,000.

Share premium amounting to P28,400,000 as at March 31, 2018 and 2017 represents the excess of payment over par value of the original shares issued.

19. DIVIDENDS

The Company has declared the following dividends to its equity holders:

		Dividends Per Share		Total Dividends	
	Note	2018	2017	2018	2017
Cash dividends		**P2.9992943**	P2.41	**P51,295,883**	P35,915,387
Stock dividends	18	**10.00**	1.48	**28,973,500**	22,000,000

On July 11, 2017, the BOD approved declaration and payment of cash dividends amounting to P51,295,883 or P2.9992943 per share to shareholders on record as at July 11, 2017. During the year, a total of P51,232,845 was paid to shareholders.

On May 25, 2016, the BOD approved declaration and payment of cash dividends amounting to P35,915,387 or P2.41 per share to shareholders on record as at May 25, 2016. During the year, a total of P35,816,605 was paid to shareholders.

As at March 31, 2018 and 2017, the Company has outstanding cash dividends payable amounted to P411,753 and 348,715, respectively.

The Company has a dividend policy to declare dividends to shareholders of record, which are paid from unrestricted retained earnings.

20. SALES

Sales consist of sales to distributors and in-house customers. The breakdown of sales and the relative returns and discounts is as follows:

	Note	**2018**	2017
Sales		**P2,518,610,249**	P2,501,738,057
Less: Sales returns and discounts	7	**575,977,737**	595,542,901
		P1,942,632,512	P1,906,195,156

21. COST OF GOODS SOLD

An analysis of the Company's cost of goods sold is as follows:

	Note	**2018**	2017
Inventories, April 1	8	**P 524,132,274**	P 334,885,914
Purchases and other direct costs		**1,080,361,796**	1,271,565,344
Cost of goods available-for-sale		**1,604,494,070**	1,606,451,258
Less: Inventories, March 31	8	**477,358,629**	524,132,274
		P1,127,135,441	P1,082,318,984

Included in the total cost of goods sold are the provision for inventory obsolescence amounting to P48,171,976 and P24,479,257 in 2018 and 2017, respectively, as discussed in Note 8.

Of the total purchases and other direct cost, P412,467,603 and P478,857,291 pertain to purchases from related parties for 2018 and 2017, respectively.

22. OTHER INCOME

The Company's other income consist of:

	Notes	**2018**	2017
Gain on disposal of property and equipment	10	**P2,914,734**	P3,790,483
Rent income	17	**240,000**	240,000
Interest income	6	**57,754**	89,767
Others		**469**	526,501
		P3,212,957	P4,646,751

23. OPERATING EXPENSES

Details of operating expenses are as follows:

	Notes	2018	2017
Salaries and wages	25	**P206,627,201**	P212,672,937
Advertising and marketing		**145,923,291**	133,181,632
Transportation and travel		**34,181,620**	42,646,421
Taxes and licenses		**31,055,615**	28,852,760
Meeting and conferences		**25,987,159**	8,957,281
Management fees	17	**25,006,990**	25,345,046
Depreciation	10	**23,937,141**	22,895,439
Retirement benefit expense	15,25	**19,615,222**	9,231,870
Administration fee-ZPC	29	**11,380,617**	1,117,241
Communication, light and water		**10,187,039**	11,065,803
Subscriptions		**9,209,866**	8,418,665
Professional fees		**8,602,848**	29,045,088
Representation and entertainment		**7,537,304**	11,990,411
Amortization of intangible assets	11	**7,113,606**	6,891,129
Rental	17, 26	**6,867,465**	8,141,772
Samples		**6,240,183**	17,804,547
Commission		**5,662,202**	-
Doubtful accounts	7	**5,041,830**	-
Royalties	11	**4,562,522**	4,832,525
Repairs and maintenance		**3,588,712**	3,940,531
Insurance		**2,482,301**	2,472,636
Delivery		**2,141,758**	3,381,830
Postage and supplies		**1,989,444**	2,203,920
Donations		**654,179**	2,000
Others		**3,031,063**	7,431,492
		P608,627,178	P602,522,976

Others pertain to customer related penalties and general expenses such as membership dues and Company events expenses.

24. OTHER EXPENSES

An analysis of the Company's other expenses is as follows:

	2018	2017
Foreign exchange loss - net	**P3,377,658**	P2,313,334
Bank charges	**638,332**	623,960
Stamp paper/duty charges	**2,728,018**	1,398,278
	P6,744,008	P4,335,572

25. EMPLOYEE BENEFITS

Aggregate employee benefits charged to operating expenses comprised of:

	Notes	2018	2017
Short-term employee benefits	23	**P206,627,201**	P212,672,937
Post-employment benefits	15, 23	**19,615,222**	9,231,870
		P226,242,423	P221,904,807

26. OPERATING LEASE AGREEMENTS

<u>The Company as a lessee</u>

On April 1, 2016, the Company executed a lease agreement for the extension of its office space for a period of five years up to March 31, 2021 with the option to renew the agreement. Monthly rental is subject to escalation rate of 5% per annum.

On February 15, 2016, the Company executed a lease agreement for the extension of its corporate office space for a period of three years.

On June 1, 2016, the Company signed an extension of lease agreement for its warehouse space for a period of three years. The above lease agreements required the Company to pay security deposits amounting to P2,286,292 and P2,289,167 as at March 31, 2018 and 2017, respectively, which are included under other non-current assets as disclosed in Note 12. Monthly rental is subject to escalation rate of 4% per annum.

Total rent expense recognized in profit or loss for the year ended March 31, 2018 and 2017 amounted to P6,867,465 and P8,141,772, respectively, as disclosed in Note 23.

As at March 31, 2018 and 2017, the accrued rent amounted to P129,398 and P172,290, respectively, as disclosed in Note 13.

As at March 31, 2018 and 2017, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018	2017
Not later than one year	**P 7,614,428**	P 8,092,983
Later than one year but not later than five years	**8,150,400**	14,092,066
	P15,764,828	P22,185,049

<u>The Company as a lessor</u>

The Company leases out portion of its office space under an operating and cancellable lease agreement to Lupin Philippines, Inc.'s (LPI) with a lease term of one year, renewable by agreement of both parties.

Rental income earned during 2018 and 2017 amounted to P240,000 for both years.

LPI renewed its existing lease for another period of one year up to November 30, 2018. The contract will be subject 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.

At the end of each reporting period, the Company had contracted with LPI for the following future minimum lease payments:

	2018	2017
Due within one year	**P160,000**	P160,000

27. INCOME TAXES

Components of income tax expense are as follows:

	Note	**2018**	2017
Current tax expense		**P79,791,813**	P64,555,806
Deferred tax expense (benefit)	28	**(15,508,997)**	590,275
		P64,282,816	P65,146,081

A numerical reconciliation between tax expense and the product of accounting profit multiplied by 30% in 2018 and 2017 follows:

	2018	2017
Accounting profit	**P191,573,160**	P211,705,744
Tax expense	**P 57,471,948**	P 63,511,723
Tax effect of expenses that are non-deductible:		
Retirement expenses	**5,884,567**	969,561
Other non-deductible expenses	**687,289**	-
Non-deductible donation	**196,254**	-
Non-deductible depreciation expense	**52,607**	39,455
Non-deductible interest expense	**7,147**	11,109
Non-deductible penalties	**330**	9,600
Non-deductible representation expenses	**-**	631,563
Interest income subject to final tax	**(17,326)**	(26,930)
	P 64,282,816	P 65,146,081

28. DEFERRED TAXES

The following are the composition of deferred tax assets recognized by the Company:

	2016	Charged to Profit/Loss	2017	Charged to Profit/Loss	**2018**
Allowance for inventory obsolescence	P8,223,146	(P1,035,341)	P7,187,805	P14,451,593	**P21,639,398**
Accrual for donation	165,150	(165,150)	-	-	**-**
Unrealized foreign exchange loss	112,447	(90,201)	22,246	128,839	**151,085**
Provision for bad debts	781,287	-	781,287	1,512,583	**2,293,870**
Unpaid stock option payment	-	688,503	688,503	(570,865)	**117,638**
Difference arising from application of PAS 17, *Leases*	40,058	11,914	51,972	(13,153)	**38,819**
	P9,322,088	(P 590,275)	P8,731,813	P15,508,997	**P24,240,810**

29. SIGNIFICANT AGREEMENTS

a. Warehousing and Distribution Agreement

a.1 The Company has an exclusive Distribution Agreement with Zuellig Pharma Corporation (Zuellig) dated November 10, 2006 effective January 1, 2007. Under the terms of the agreement, Zuellig will store, distribute and sell the Company's products within the Philippines. The agreement is for a period of two years and renewable upon mutual agreement of the parties for successive periods of two years each.

On March 23, 2016, both contracting parties renewed the warehousing and distribution agreement. The agreement is for a period of three years and four months starting April 1, 2016 to July 31, 2019 and will be subject to automatic renewal every year thereafter, unless terminated by either party by written notice.

a.2 On November 1, 2009, the Company also executed a Distribution Agreement with GB Distributors, Inc. as an additional distributor and seller of its pharmaceutical products. The distribution agreement was for a period of three years from the effective date and has been renewed for another three years.

a.3 In 2014, the Company has entered into additional distribution agreements with Globo Asiatico Enterprises, Inc. and Complete Solutions Pharmacy for distributions of newly acquired Oncology Portfolio.

a.4 On February 14, 2018, the Company entered into a Distribution Agreement with Medport Distributors, Inc. as an additional distributor and seller of its pharmaceutical products. The distribution agreement was for a period of one year starting January 1, 2018 to December 31, 2018 and subject for review and renewal as mutually agreed upon by contracting parties.

b. Manufacturing Agreements

The Company also entered into manufacturing agreements with third parties, to manufacture private label pharmaceutical products. The agreements are for periods of two to five years and renewable upon mutual agreement of the parties.

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	2018		2017	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
Cash	**P 34,135,853**	**P 34,135,853**	P115,266,426	P115,266,426
Trade and other receivables	**1,107,587,706**	**1,107,587,706**	758,465,602	758,465,602
Due from related parties	**9,616,126**	**9,616,126**	3,114,119	3,114,119
Security deposits	**2,286,292**	**2,286,292**	2,289,167	2,289,167
	P1,153,625,977	**P1,153,625,977**	P879,135,314	P879,135,314
Financial Liabilities				
Trade and other payables	**P 625,216,119**	**P 625,216,119**	P521,733,684	P521,733,684
Short-term borrowings	**360,725,000**	**360,725,000**	353,250,000	353,250,000
Due to related parties	**7,972,890**	**7,972,890**	11,351,476	11,351,476
Dividend payable	**411,753**	**411,753**	348,715	348,715
	P 994,325,762	**P 994,325,762**	P886,683,875	P886,683,875

Trade and other payables are net of government payables which are not considered financial liabilities.

The fair values of cash, trade and other receivables, due from related parties, trade and other payables, short-term borrowings, due to related parties and dividends payable reasonably approximate their carrying amounts considering the short-term nature of these financial instruments.

The fair value of security deposits accounts approximates its carrying amount since the Company does not anticipate the carrying amount to be significantly different from the actual value at the time of refund.

31. 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 refers to the effects of fluctuations in currency exchange rates that affect or changes an investment's value. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities that are denominated in a currency that is not the Company's functional currency. Significant fluctuation in the exchange rates could significantly affect the Company's financial position. The Company undertakes certain transactions denominated in US Dollars; hence, exposures to exchange rate fluctuations arise with respect to these transactions denominated in US Dollars.

The Company has no established policy in managing foreign exchange rate risk. Any favorable or unfavorable movements of foreign currency exchange rates are absorbed by the Company. The carrying amounts of the Company's foreign currency denominated balances are as follows:

	2018	2017
Cash in banks	**P 46,616**	P 1,160,905
Trade payables	**28,561,811**	3,839,051
Due to related parties	**40,417,078**	23,092,171

The sensitivity rate used in reporting foreign currency risk internally to key management personnel is 5% 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 5% change in foreign currency rates. The sensitivity analysis includes all of the Company's foreign currency denominated asset and liabilities.

A positive number below indicates an increase in profit and equity where the Peso strengthens 5% against the relevant currency. For a 5% weakening of the Peso against the relevant currency, there would be an equal and opposite impact on the profit and equity for the year.

	Effect on Profit and Equity	
	2018	2017
Cash	**(P 2,331)**	(P 58,045)
Trade payables	**1,428,091**	191,953
Due to related parties	**2,020,854**	1,154,609

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 in banks and short term borrowings, as disclosed in Notes 6 and 14. The sensitivity analyses below have been determined based on the exposure to interest rates. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of each reporting period was outstanding for the whole year. A 0.5% sensitivity rate 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.

If interest rates had been 0.5% higher/lower, the Company's profit or loss and equity for the years ended March 31, 2018 and 2017 would decrease/ increase by P1,803,625 and P1,766,250, respectively, mainly as a result of the changes in the fair value of short term borrowings fixed rate instruments.

These balances are short-term in nature and with the current interest rate level, any variation in the interest will not have a material impact on the profit of the Company.

Credit risk

Credit risk refers to the possibility that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, when appropriate, as a means of mitigating the risk of financial loss from defaults.

The carrying amounts of financial assets recorded in the financial statements, which is net of impairment losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	2018	2017
Cash in banks	**P 32,465,895**	P 849,071
Checks on hand	**1,669,958**	114,417,355
Trade and other receivables – net	**1,107,587,706**	758,465,602
Due from related parties	**9,616,126**	3,114,119
Security deposits	**2,286,292**	2,289,167
	P1,153,625,977	P879,135,314

The maximum exposure to credit risk for trade and other receivables, net of allowance for impairment losses, by type of customer, all of which are located in the Philippines, is as follows:

	2018	2017
Pharmaceutical companies and distribution	**P670,631,752**	P489,527,838
In-house distribution and others	**364,863,238**	224,126,105
Advances from employees and others	**72,092,716**	44,811,659
	P1,107,587,706	P758,465,602

As at March 31, 2018 and 2017, the aging analysis of the Company's financial assets is as follows:

		Past Due Account but Not Impaired					
	Neither Past Due nor Impaired	0-30 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Impaired Financial Assets	Total
2018							
Cash	**P 34,135,853**	**P -**	**P -**	**P -**	**P -**	**P -**	**P 34,135,853**
Trade and other receivables	**661,207,388**	**57,512,629**	**49,191,244**	**50,744,732**	**259,490,382**	**7,646,233**	**1,085,972,608**
Due from related a party	**9,616,126**	**-**	**-**	**-**	**-**	**-**	**9,616,126**
Security deposits	**2,286,292**	**-**	**-**	**-**	**-**	**-**	**2,286,292**
	P707,245,659	**P57,512,629**	**P49,191,244**	**P50,744,732**	**P259,490,382**	**P7,646,233**	**P1,131,830,879**
2017							
Cash	P115,266,426	P -	P -	P -	P -	P -	P 115,266,426
Trade and other receivables	503,384,618	94,314,571	27,590,321	2,374,564	136,076,549	2,604,403	766,345,026
Due from related a party	3,114,119	-	-	-	-	-	3,114,119
Security deposits	2,289,167	-	-	-	-	-	2,289,167
	P624,054,330	P94,314,571	P27,590,321	P 2,374,564	P136,076,549	P2,604,403	P 887,014,738

The Company uses internal ratings to determine the credit quality of its financial assets. These have been mapped to the summary rating below:

High Grade - applies to highly rated financial obligors, strong corporate counterparties and personal borrowers with whom the Company has excellent repayment experience.

Satisfactory Grade - applies to financial assets that are performing as expected, including loans and advances to small and medium sized entities and recently established businesses.

Acceptable Grade - applies to counterparties with risk profiles that are subject to closer monitoring and scrutiny with the objective of managing risk and moving accounts to improved rating category.

Low Grade - applies to risks that is neither past due nor expected to result in loss but where the Company requires a workout of the relationship unless an early reduction in risk is achievable.

At the end of each reporting period, the credit qualities of the Company's financial assets that are neither past due nor impaired were determined to be high grade.

Liquidity risk

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

The Company manages its liquidity needs by forecasting cash inflows and outflows due in day-to-day business, as well as monitoring scheduled debt service payments for noncurrent liabilities. The data used for analyzing these cash flows is consistent with that used in the contractual maturity analysis below.

The Company normally considers expected cash flows from financial assets in assessing and managing liquidity risk, particularly its cash resources and receivables. As at March 31, 2018, the Company's financial assets exceeded its non-derivative financial liabilities.

The following table details the remaining contractual maturity for the Company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flow 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 flow.

	Weighted Average Interest Rate	Less than One Year	**Total**
2018			
Trade and other payables		**P625,216,119**	**P625,216,119**
Short-term borrowings	**3.50%**	**360,725,000**	**360,725,000**
Due to related parties		**7,972,890**	**7,972,890**
Dividends payable		**411,753**	**411,753**
		P994,325,762	**P994,325,762**
2017			
Trade and other payables		P521,733,684	P521,733,684
Short-term borrowings	3.00%	353,250,000	353,250,000
Due to a related party		11,351,476	11,351,476
Dividends payable		348,715	348,715
		P886,683,875	P886,683,875

The trade and other payables is net of government payables such as withholding taxes and Output VAT, which are not considered as financial liabilities. Short-term borrowings are presented at the principal amounts of P360,725,000 and P353,250,000 and expected interest amounting to P12,625,375 and P10,597,500 as at March 31, 2018 and 2017, respectively.

32. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to increase the value of shareholder's investment and maintain high growth by applying free cash flow to selective investments that would further the Company's growth. The Company sets strategies with the objective of establishing a versatile and resourceful financial management and capital structure.

The BOD has overall responsibility for monitoring of working capital in proportion to risk. Financial analytical reviews are made and reported in the Company's financial reports for BOD review on a regular basis. In case financial reviews indicate that the working capital sourced from the Company's own operations including short-term borrowings may not support future operations or projected capital investments, the Company will obtain financial support from its related parties.

Management reviews the capital structure on a quarterly basis. As part of this review, Management considers the cost of capital and the risks associated with it. Management believes that Company's gearing ratios, which are within acceptable range, are as follows:

	2018	2017
Debt	**P994,325,762**	P886,683,875
Cash	**34,135,853**	115,266,426
Net debt	**960,189,909**	771,417,449
Equity	**626,188,407**	521,095,508
Net debt to equity ratio	**1.533:1**	1.480:1

There were no changes in the Company's approach to capital management during the year.

Pursuant to Sections 43 of the Corporation Code of the Philippines (the Code"), domestic stock corporation are prohibited from retaining surplus profits in excess of 100% of its paid up share capital, unless justified by any reasons provided in the Code. The Company is in the process of determining the amount of dividends to be declared subsequently.

33. 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, 2017 is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

Output VAT

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

	Sales	**VAT Rate**	**Output VAT**
Vatable Sales	**P2,028,071,290**	**12%**	**P243,368,555**
Exempt Sales	**4,307,197**	**-**	**-**
	P2,032,378,487		**P243,368,555**

Input VAT

Details of the Company's input VAT claimed are as follows:

Balance, April 1, 2017	**P 22,436,155**
Add:	
a. Goods for resale or manufacture or further processing	**85,389,091**
b. Goods other than for resale or manufacture	**18,687,560**
c. Goods subject to amortization	**2,637,201**
d. Capital goods not subject to amortization	**15,822**
e. Services lodged under cost of goods sold	**6,509,728**
f. Services lodged under other accounts	**6,669,378**
g. Importation of goods other than capital goods	**22,013,221**
Total available input VAT	**164,358,156**
Less: Input VAT claimed during the year	**(135,974,383)**
Balance, March 31, 2018	**P 28,383,773**

Taxes on importation of goods

Custom Duties and Tariff Fees	
Landed cost of imports	**P183,443,507**
Customs duties paid or accrued	**3,533,674**
	P186,977,181

Other taxes and licenses

The Company's other taxes and licenses and permit fees paid or accrued charged to operating expenses in 2018 are composed of the following:

Charged to Operating Expenses	
License and permit fees	**P 7,348,220**
Documentary stamp tax	**2,728,019**
Others	**23,707,394**
	P33,783,633

Withholding tax

Details of the Company's withholding taxes paid or accrued are as follows:

Withholding tax on compensation	**P34,391,995**
Expanded withholding taxes	**13,256,310**
Final withholding taxes	**6,042,093**
	P53,690,398

Deficiency tax assessments and tax cases

The Company has no outstanding tax assessments as at March 31, 2018.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company were approved and authorized for issuance by the Management on April 27, 2018.

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