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Grant Thornton

FOR SEC FILING

Financial Statements and
Independent Auditors' Report

Sun Pharma Philippines, Inc.

March 31, 2024 and 2023

Report of Independent Auditors

The Board of Directors
Sun Pharma Philippines, Inc.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
17F Unit 3 Milestone @ Fifth Avenue
5th Avenue Bonifacio Global City, Fort Bonifacio
1634 Taguig City NCR, Fourth District Philippines

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sun Pharma Philippines, Inc. (the Company), which comprise the statements of financial position as at March 31, 2024 and 2023, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2024 and 2023, 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 audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company has substantial capital deficiency of P339.9 million and P344.3 million as at March 31, 2024 and 2023, respectively. This condition indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern entity. In response to this matter, the Company's management has already launched new products in July 2023 and plans to enter new business segments and explore local tie-ups or joint venture options to continuously grow the business in the coming years. The Company's management also continues to strengthen the strategy to expand its to increase its sales and continuously generate profit by continuous intensive marketing of its products. Management is confident that the Company will be able to recover from losses in the next succeeding years. In 2024 and 2023, the Company generated operating income amounting to P37.7 million and P21.8 million, respectively. The Company's ultimate parent company has also committed to provide the Company with financial assistance to maintain it as going concern and enable it to meet its liabilities as and when they fall due until the next reporting period. Accordingly, the accompanying Company's financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the settlement of liabilities in the normal course of business. In connection with our audit, we have performed audit procedures to evaluate management's assumptions as to the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended March 31, 2024 required by the Bureau of Internal Revenue as disclosed in Note 23 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Arman B. Neptuno
Partner

CPA Reg. No. 0148776
TIN 428-244-641
PTR No. 10076149, January 3, 2024, Makati City
SEC Group A Accreditation
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002551-048-2023 (until Nov. 14, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

May 8, 2024

Supplemental Statement of Independent Auditors

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The Board of Directors
Sun Pharma Philippines, Inc.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
17F Unit 3 Milestone @ Fifth Avenue
5th Avenue Bonifacio Global City, Fort Bonifacio
1634 Taguig City NCR, Fourth District Philippines

We have audited the financial statements of Sun Pharma Philippines, Inc. (the Company) for the year ended March 31, 2024, on which we have rendered the attached report dated May 8, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as at March 31, 2024, as disclosed in Note 17 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Arman B. Neptuno
Partner

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May 8, 2024

SUN PHARMA PHILIPPINES, INC.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	2024	2023
<u>ASSETS</u>			
CURRENT ASSETS			
Cash	4	P 79,767,271	P 59,069,876
Trade and other receivables - net	5	228,522,208	170,819,172
Inventories - net	6	124,414,041	224,910,969
Other current assets	7	25,560,809	29,803,829
Total Current Assets		458,264,329	484,603,846
NON-CURRENT ASSETS			
Property and equipment - net	8	47,395,089	24,183,971
Right-of-use assets - net	9	31,318,429	39,168,141
Other non-current assets - net	7	2,813,548	1,781,469
Total Non-current Assets		81,527,066	65,133,581
TOTAL ASSETS		P 539,791,395	P 549,737,427
<u>LIABILITIES AND CAPITAL DEFICIENCY</u>			
CURRENT LIABILITIES			
Trade and other payables	10	P 526,066,242	P 525,750,945
Advances from parent company	16	315,845,131	324,622,435
Lease liabilities	9	7,628,743	7,952,282
Total Current Liabilities		849,540,116	858,325,662
NON-CURRENT LIABILITIES			
Retirement benefit obligation	14	4,715,751	3,151,956
Lease liabilities	9	25,453,940	32,608,220
Total Non-current Liabilities		30,169,691	35,760,176
Total Liabilities		879,709,807	894,085,838
CAPITAL DEFICIENCY			
Capital stock	17	8,653,400	8,653,400
Revaluation reserve	14	(266,232)	228,389
Deficit		(348,305,580)	(353,230,200)
Capital Deficiency		(339,918,412)	(344,348,411)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		P 539,791,395	P 549,737,427

See Notes to Financial Statements.

SUN PHARMA PHILIPPINES, INC.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2024 AND 2023
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2024</u>	<u>2023</u>
REVENUES - Net	11	P 613,160,531	P 541,447,349
COST OF GOODS SOLD	12	<u>229,611,178</u>	<u>266,275,042</u>
GROSS PROFIT		383,549,353	275,172,307
SELLING AND ADMINISTRATIVE EXPENSES	12	<u>345,809,679</u>	<u>253,409,379</u>
OPERATING INCOME		37,739,674	21,762,928
OTHER CHARGES - Net	13	(<u>26,367,644</u>)	(<u>19,993,868</u>)
PROFIT BEFORE TAX		11,372,030	1,769,060
TAX EXPENSE	15	<u>6,447,410</u>	<u>2,757,011</u>
NET INCOME (LOSS)		4,924,620	(987,951)
OTHER COMPREHENSIVE LOSS	14	(<u>494,621</u>)	(<u>1,104,674</u>)
TOTAL COMPREHENSIVE INCOME (LOSS)		P <u>4,429,999</u>	(P <u>2,092,625</u>)

See Notes to Financial Statements.

SUN PHARMA PHILIPPINES, INC.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE YEARS ENDED MARCH 31, 2024 AND 2023
(Amounts in Philippine Pesos)

	<u>Capital Stock</u> <small>(see Note 17)</small>	<u>Revaluation Reserve</u> <small>(see Note 14)</small>	<u>Deficit</u>	<u>Total</u>
Balance at April 1, 2023	P 8,653,400	P 228,389	(P 353,230,200)	(P 344,348,411)
Total comprehensive income (loss)	<u>-</u>	<u>(494,621)</u>	<u>4,924,620</u>	<u>4,429,999</u>
Balance at March 31, 2024	<u>P 8,653,400</u>	<u>(P 266,232)</u>	<u>(P 348,305,580)</u>	<u>(P 339,918,412)</u>
Balance at April 1, 2022	P 8,653,400	P 1,333,063	(P 352,242,249)	(P 342,255,786)
Total comprehensive loss	<u>-</u>	<u>(1,104,674)</u>	<u>(987,951)</u>	<u>(2,092,625)</u>
Balance at March 31, 2023	<u>P 8,653,400</u>	<u>P 228,389</u>	<u>(P 353,230,200)</u>	<u>(P 344,348,411)</u>

See Notes to Financial Statements.

SUN PHARMA PHILIPPINES, INC.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2024 AND 2023
(Amounts in Philippine Pesos)

	Notes	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 11,372,030	P 1,769,060
Adjustments for:			
Loss on inventory obsolescence - net	6	46,058,801	2,200,959
Depreciation and amortization	7, 8, 9	21,309,089	11,631,013
Net unrealized loss on foreign exchange transactions	13	17,861,734	19,665,169
Impairment loss on trade and other receivables	5	3,051,941	590,995
Gain on disposals of assets	8	(2,001,980)	(164,493)
Interest expense on lease liabilities	9	543,535	218,610
Interest income	4, 5	(133,296)	(93,182)
Operating income before working capital changes		98,061,855	35,818,131
Increase in trade and other receivables		(60,754,977)	(31,670,015)
Decrease (increase) in inventories		54,438,127	(138,752,109)
Decrease (increase) in other current assets		8,642,393	(16,212,684)
Increase in other non-current assets		(1,032,082)	(424,946)
Increase (decrease) in trade and other payables		(6,915,739)	245,195,215
Increase (decrease) in retirement benefit obligation		<u>1,069,174</u>	(449,017)
Cash generated from operations		93,508,750	93,504,575
Interest received		133,296	93,182
Cash paid for taxes		(10,880,301)	(10,874,388)
Net Cash From Operating Activities		<u>82,761,746</u>	<u>82,723,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	8	(36,636,977)	(16,104,823)
Proceeds from sale of property and equipment	8	<u>2,001,980</u>	<u>164,493</u>
Net Cash Used in Investing Activities		(34,634,997)	(15,940,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of advances from parent company	16	(19,408,000)	(11,686,837)
Payment of lease liabilities	9	(8,021,354)	(2,371,041)
Cash Used in Financing Activities		(27,429,354)	(14,057,878)
NET INCREASE IN CASH		20,697,395	52,725,161
CASH AT BEGINNING OF YEAR		<u>59,069,876</u>	<u>6,344,715</u>
CASH AT END OF YEAR		<u>P 79,767,271</u>	<u>P 59,069,876</u>

Supplemental Information on a Non-cash Investing and Financing Activities –

In fiscal year 2023, the Company recognized right-of-use asset and lease liability amounting to P40.4 million (see Note 9).

See Notes to Financial Statements.

SUN PHARMA PHILIPPINES, INC.
[A Wholly Owned Subsidiary of Sun Pharma (Netherlands) B.V.]
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Sun Pharma Philippines, Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 8, 2011 primarily to engage in the business of marketing and distribution on wholesale of pharmaceutical, cosmetics and chemical products.

The Company is a wholly owned subsidiary Sun Pharma (Netherlands) B.V. (Parent company), a private limited liability company under Dutch law incorporated in Netherlands, is engaged to trade including import, export, purchase and sale in pharmaceutical and related products mainly manufactured by Sun Pharmaceutical Industries Limited – India (the ultimate parent company) and supply to the overseas related parties. The ultimate parent company is involved with manufacturing operations that are focused on producing generics, branded generics, speciality, over-the-counter products, anti-retrovirals, active pharmaceutical ingredients and intermediates in the full range of dosage forms, including tablets, capsules, injectables, ointments, creams and liquids.

In 2021, Sun Pharma Global FZE (former Parent Company) had merged with the ultimate parent company. The Company is yet to obtain the certificate authorizing the registration of the transfer of shares to be approved by the Bureau of Internal Revenue (BIR).

On January 20, 2023, the Company's Board of Directors (BOD) approved the change in the Company's registered office address, which is also its principal place of business, from Unit 604, Liberty Center Building, 104 H.V. Dela Costa Street, Salcedo Village, Makati City to 17F Unit 3 Milestone @ Fifth Avenue, 5th Avenue Bonifacio Global City, Fort Bonifacio 1634 Taguig City NCR, Fourth District Philippines. The amendment was approved by the BIR on July 19, 2023 and by the SEC on August 8, 2023.

The registered office address of the ultimate parent company is located at Sun House CTS No. 201 B/1, Western Express Highway, Goregaon, Mumbai 400063, India. The registered office address of the new parent company is located at Polarisavenue 87, 2132 JH Hoofddorp, The Netherlands.

1.2 Status of Operations

The Company has reported substantial losses in the prior years, resulting in capital deficiency of P339.9 million and P344.3 million as at March 31, 2024 and 2023, respectively. This condition indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern entity. In response to this matter, the Company's management has already launched new products in July 2023 and plans to enter new business segments and explore local tie-ups or joint venture options to continuously grow the business in the coming years. The Company's management also continues to strengthen the strategy to expand its market to increase its sales and continuously generate profit by continuous intensive marketing of its products. Management is confident that the Company will be able to recover from losses in the next succeeding years.

The Company generated an operating income of P37.7 million and P21.8 million in 2024 and 2023, respectively. The Company's ultimate parent company has also committed to provide the Company with financial assistance to maintain it as going concern and enable it to meet its liabilities as and when they fall due until the next reporting period. Accordingly, the financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments to reflect possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that might result from the outcome of this uncertainty.

1.3 Approval of Financial Statements

The financial statements of the Company as at and for the year ended March 31, 2024 (including the comparative financial statements as at and for the fiscal year ended March 31, 2023) were authorized for issue by the Company's BOD on May 8, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expense and other comprehensive income or loss in a single statement of comprehensive income.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency, the currency of the primary economic environment in which the Company operates.

2.2 Adoption of Amended Standards

(a) *Effective in Fiscal Year 2024 that are Relevant to the Company*

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for its annual period beginning April 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments)	:	Presentation of Financial Statements – Disclosure of Accounting Policies
PAS 8 (Amendments)	:	Definition of Accounting Estimates
PAS 12 (Amendments)	:	Deferred Tax Related to Assets and Liabilities from a Single Transaction

Discussed below and in the succeeding page are the relevant information about these pronouncements.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Company's financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Company's financial statements.
- (iii) PAS 12 (Amendments), *Income taxes – Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Company's financial statements.

(b) *Effective in Fiscal Year 2024 that are not Relevant to the Company*

Among the amendments to PFRS, which are mandatorily effective for its annual period beginning April 1, 2023, the amendments to PAS 12, *Income Taxes: International Tax Reform – Pillar Two Model Rules*, are not relevant to the Company's financial statements.

(c) *Effective Subsequent to Fiscal Year 2024 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2024, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

- (iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)
- (iv) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)
- (v) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

2.3 Financial Instruments

(a) Financial Assets

Currently, all of the Company's financial assets are classified and measured at amortized cost.

The Company's financial assets at amortized cost are presented as Cash, Trade and Other Receivables (except for advances to suppliers, and advances to employees that are subject for liquidation) and Refundable deposits (presented as part of Other Assets) in the statement of financial position.

At the end of the reporting period, the Company assesses and recognizes allowance for expected credit losses (ECL) on its financial assets measured at amortized cost. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade and other receivables.

(b) Financial Liabilities

Financial liabilities include trade and other payables (except for return liability and tax-related liabilities), advances from parent company and lease liabilities are recognized when the Company becomes a party to the contractual terms of the instrument.

Advances from parent company were availed to finance working capital requirements.

2.4 Inventories

The cost of inventories is determined using the first-in, first-out method. Net realizable value of raw materials is the current replacement cost.

2.5 Intangible Asset

Intangible asset pertains to computer software, which is presented as part of Other Non-current Assets account in the statement of financial position. These costs are amortized on a straight-line basis over the expected useful life of three to seven years.

2.6 Property and Equipment

All property and equipment are stated at cost less accumulated depreciation, amortization, and any impairment in value, if any.

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

Furniture and fixtures	5 - 10 years
Vehicles	3 - 5 years
Office equipment	3 - 5 years

2.7 Leases – Company as Lessee

The Company amortizes the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset of four years or the end of the lease term.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from all other assets and liabilities, respectively.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Company's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Determination of Timing of Satisfaction of Performance Obligations

Revenue comprises revenue from sale of pharmaceutical products.

The Company determines that its revenue from sale of goods shall be recognized at a point in time when the control of the goods has been transferred to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

(b) *Determination of ECL on Trade and Other Receivables*

The Company uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables are disclosed in Note 19.3(b).

(c) *Recognition of Provisions and Contingencies*

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events. Similarly, possible outflows of economic benefits to the Company that do not yet meet the recognition criteria of a liability are considered contingent liabilities, hence, are not recognized in the financial statements. Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 18.

3.2 Key Sources of Estimation Uncertainty

Discussed below and in the succeeding pages are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 19.3.

(b) *Estimation of Amounts Involving Right of Return*

The Company's contract of sale has variable consideration which is the right of return given to the customers within a specified period. Given the large number of contracts of the same characteristics, the Company considered the expected value method under the provisions of PFRS 15, *Revenue from Contracts with Customers*, which better predicts the amounts of consideration it will be required to return and receive involving the customer's right of return.

The carrying amount of the return liabilities as at March 31, 2024 and 2023 is presented as part of Trade and Other Payables account in the statements of financial position (see Note 10).

(c) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account past experience and other factors affecting the net realizable value of inventory items. Future realization of the carrying amounts of inventories as presented in Note 6 is evaluated on a continuous basis throughout the year. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next reporting period.

(d) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets as at March 31, 2024 and 2023 may not be fully utilized in the subsequent reporting periods. Accordingly, deferred tax assets were not recognized. The carrying value of deferred tax assets is disclosed in Note 15.

(e) *Impairment of Non-financial Assets*

The Company's property and equipment, intangible assets, right-of-use assets, and other non-financial assets are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses are necessary to be recognized in fiscal year 2024 and 2023 on the Company's intangible assets, property and equipment, right-of-use assets, and other non-financial assets based on the management's assessment (see Notes 7, 8 and 9.1).

(f) *Estimation of Useful Lives of Intangible Asset, Property and Equipment, and Right-of-use Asset*

The Company estimates the useful lives of intangible asset, property and equipment, and right-of-use assets, based on the period over which the assets are expected to be available for use. The estimated useful lives of intangible assets, property and equipment, and right-of-use asset 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 assets.

The carrying amounts of intangible assets, property and equipment, and right-of-use assets are presented in Notes 7, 8 and 9.1, respectively. Based on management's assessment as at March 31, 2024 and 2023, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(g) *Valuation of Post-employment Benefit*

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase.

A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 14.2.

4. CASH

This account includes the following:

	<u>2024</u>	<u>2023</u>
Cash in banks	P 78,915,028	P 59,034,876
Cash on hand	<u>852,243</u>	<u>35,000</u>
	<u>P 79,767,271</u>	<u>P 59,069,876</u>

Cash in banks generally earn interest based on daily bank deposit rates. Interest earned from cash in bank is reported as part of Interest income under Other Charges – net account in the statements of comprehensive income (see Note 13).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>2024</u>	<u>2023</u>
Trade receivables	P 235,102,013	P 174,779,374
Advances to employees	1,265,499	985,484
Others	<u>360,136</u>	<u>207,813</u>
	236,727,648	175,972,671
Allowance for impairment	(8,205,440)	(5,153,499)
	<u>P 228,522,208</u>	<u>P 170,819,172</u>

Trade receivables have contractual terms of 30, 60, 90 or 120 days and do not bear any interest.

Advances to employees includes salary advances and salary loans granted to certain employees. Salary loans are subject to an annual interest rate of 12%. Interest income earned from salary loans is recognized as part of Interest income under Other Charges – net account in the statements of comprehensive income (see Note 13).

All of the Company’s trade and other receivables have been reviewed for impairment [see Note 19.3(b)]. Certain trade receivables were found to be impaired; hence, adequate amount of allowance for impairment has been recognized.

The net carrying value of trade and other receivables is considered a reasonable approximation of fair value.

A reconciliation of the allowance for impairment at the beginning and end of fiscal year 2024 and 2023 is shown below.

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Balance at beginning of year		P 5,153,499	P 4,562,504
Impairment loss	13	<u>3,051,941</u>	<u>590,995</u>
Balance at end of year		<u>P 8,205,440</u>	<u>P 5,153,499</u>

6. INVENTORIES

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

	<u>2024</u>	<u>2023</u>
Finished goods:		
At cost	P 178,258,401	P 239,808,727
At net realizable value:		
Cost	178,258,401	239,808,727
Allowance for impairment	<u>(53,844,360)</u>	<u>(14,897,758)</u>
	<u>124,414,041</u>	<u>224,910,969</u>
	<u>P 124,414,041</u>	<u>P 224,910,969</u>

Movements in allowance for inventory obsolescence consist of:

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Balance at beginning of year		P 14,897,758	P 17,475,360
Loss on inventory obsolescence	12	46,058,801	4,778,561
Write-off		<u>(7,112,199)</u>	<u>(4,778,561)</u>
Reversal of allowance	12	<u>-</u>	<u>(2,577,602)</u>
Balance at end of year		<u>P 53,844,360</u>	<u>P 14,897,758</u>

In fiscal year 2023, the Company disposed obsolete sample inventories and recognized reversal of allowance on inventory obsolescence amounting to P2.6 million. No similar transaction occurred in fiscal year 2024. The loss on inventory obsolescence, net of reversal of allowance, is included in the Selling and administrative expenses account in the statements of comprehensive income (see Note 12).

7. OTHER ASSETS

This account is composed of the following:

	<u>2024</u>	<u>2023</u>
Current:		
Advances to suppliers	P 13,055,330	P 17,953,589
Input value-added tax (VAT)	5,024,178	3,271,878
Creditable withholding tax	4,432,891	6,110,698
Deferred input VAT	2,157,224	-
Refundable deposits	695,265	2,289,549
Prepaid expenses	<u>195,921</u>	<u>178,115</u>
	<u>25,560,809</u>	<u>29,803,829</u>
Non-current:		
Refundable deposits	2,789,549	1,723,952
Computer software – net	<u>23,999</u>	<u>57,517</u>
	<u>2,813,548</u>	<u>1,781,469</u>
	<u>P 28,374,357</u>	<u>P 31,585,298</u>

Prepaid expenses include prepayments for advertising, insurance, and supplies availed of by the Company.

Refundable deposits classified as current pertains to deposit for leases entered by the Company while those classified as non-current mainly include deposits for fleet cards and deposits to doctors.

Movements of computer software as at March 31 are shown below.

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Beginning balance, net of accumulated amortization		P 57,517	P 125,023
Amortization charges for the year	12	(<u>33,518</u>)	(<u>67,506</u>)
Ending balance, net of accumulated amortization		<u>P 23,999</u>	<u>P 57,517</u>

8. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation of property and equipment at the beginning and end of 2024 and 2023 are shown below.

	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
March 31, 2024					
Cost	P 56,050,993	P 103,081	P 4,542,480	P 16,264,409	P 76,960,963
Accumulated depreciation	(24,993,865)	(67,376)	(2,136,186)	(2,368,447)	(29,565,874)
Net carrying amount	<u>P 31,057,128</u>	<u>P 35,705</u>	<u>P 2,406,294</u>	<u>P 13,895,962</u>	<u>P 47,395,089</u>
March 31, 2023					
Cost	P 45,177,446	P 813,314	P 2,793,870	P -	P 48,784,630
Accumulated depreciation	(22,387,998)	(706,234)	(1,506,427)	-	(24,600,659)
Net carrying amount	<u>P 22,789,448</u>	<u>P 107,080</u>	<u>P 1,287,443</u>	<u>P -</u>	<u>P 24,183,971</u>
April 1, 2022					
Cost	P 31,350,214	P 2,505,991	P 3,338,800	P -	P 37,195,005
Accumulated depreciation	(16,354,674)	(2,325,840)	(2,273,520)	-	(20,954,034)
Net carrying amount	<u>P 14,995,540</u>	<u>P 180,151</u>	<u>P 1,065,280</u>	<u>P -</u>	<u>P 16,240,971</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2024 and 2023 is shown below.

	<u>Vehicles</u>	<u>Furniture and Fixtures</u>	<u>Office Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Balance at April 1, 2023					
net of accumulated depreciation	P 22,789,448	P 107,080	P 1,287,443	P -	P 24,183,971
Additions	18,623,958	-	1,748,610	16,264,409	36,636,977
Depreciation charges for the year	(10,356,278)	(71,375)	(629,759)	(2,368,447)	(13,425,859)
Balance at March 31, 2024					
net of accumulated depreciation	<u>P 31,057,128</u>	<u>P 35,705</u>	<u>P 2,406,294</u>	<u>P 13,895,962</u>	<u>P 47,395,089</u>
Balance at April 1, 2022					
net of accumulated depreciation	P 14,995,540	P 180,151	P 1,065,280	P -	P 16,240,971
Additions	15,534,129	-	570,694	-	16,104,823
Depreciation charges for the year	(7,740,221)	(73,071)	(348,531)	-	(8,161,823)
Balance at March 31, 2023					
net of accumulated depreciation	<u>P 22,789,448</u>	<u>P 107,080</u>	<u>P 1,287,443</u>	<u>P -</u>	<u>P 24,183,971</u>

The amount of depreciation charges in fiscal year 2024 and 2023 is presented as part of Depreciation and amortization under Selling and Administrative Expenses in the statements of comprehensive income (see Note 12).

In fiscal years 2024 and 2023, the Company sold fully depreciated property and equipment amounting to P2.0 million and P0.2 million, respectively. The gain on disposals of these property and equipment are presented as Gain on disposals of assets under Other Charges – net account in the statements of comprehensive income (see Note 13).

As at March 31, 2024 and 2023, the gross carrying amount of the Company's fully depreciated property and equipment that are still used in operation amounted to P1.5 million and P2.5 million, respectively. In fiscal years 2024 and 2023, the Company retired some of its fully depreciated property and equipment amounting to P1.2 million and P1.6 million, respectively.

9. LEASES

The Company has leases for certain office spaces. Each lease is reflected on the statements of financial position as Right-of-Use Assets and Lease Liabilities.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sub-lease the asset to another party, the right-of-use assets can only be used by the Company. The lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Company is prohibited from selling or pledging the underlying leased assets as security and they must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's right-of-use assets recognized in the statements of financial position.

	<u>2024</u>	<u>2023</u>
Number of right-of-use assets leased	1	1
Range of remaining term	4 years	5 years
Average remaining lease term	4 years	5 years
Number of leases with extension options	1	1

9.1 Right-of-use Assets

The carrying amount of the Company's right-of-use assets as at March 31, 2024 and 2023 and the movements in each year are shown below.

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Balance at beginning of year		P 39,168,141	P 2,201,113
Depreciation for the year	12	(7,849,712)	(3,401,684)
Additions		<u>-</u>	<u>40,368,712</u>
Balance at end of year		<u>P 31,318,429</u>	<u>P 39,168,141</u>

9.2 Lease Liabilities

Lease liabilities presented in the statement of financial position as at March 31 are as follows:

	<u>2024</u>	<u>2023</u>
Current	P 7,628,743	P 7,952,282
Non-current	<u>25,453,940</u>	<u>32,608,220</u>
Balance at end of year	<u>P 33,082,683</u>	<u>P 40,560,502</u>

A reconciliation of the carrying amount of the Company's lease liabilities at the beginning and end of fiscal year 2024 and 2023 is shown below.

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	P 40,560,502	P 2,344,221
Payments	(8,021,354)	(2,371,041)
Amortization of interest	543,535	218,610
Additions	<u>-</u>	<u>40,368,712</u>
Balance at end of year	<u>P 33,082,683</u>	<u>P 40,560,502</u>

Amortization of interest is recognized under Selling and Administrative Expense account in the statements of comprehensive income (see Note 12). The lease liabilities are secured by the related underlying asset (see Note 9.1). The undiscounted maturity analysis of lease liabilities is as follows:

	<u>Within one year</u>	<u>One to five years</u>	<u>Total</u>
March 31, 2024			
Lease payment	P 7,911,180	P 25,857,378	P 33,768,558
Interest	(282,437)	(403,438)	(685,875)
Total	<u>P 7,628,743</u>	<u>P 25,453,940</u>	<u>P 33,082,683</u>
March 31, 2023			
Lease payment	P 8,405,450	P 33,465,986	P 41,871,436
Interest	(453,168)	(857,766)	(1,310,934)
Total	<u>P 7,952,282</u>	<u>P 32,608,220</u>	<u>P 40,560,502</u>

9.3 Lease Payments Not Recognized as Liabilities

The Company has elected not to recognize a lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.

In fiscal year 2024 and 2023, expenses relating to these leases amounted to P1.9 million and P0.6 million, respectively, and is presented as Rentals under Selling and Administrative Expense account in the statements of comprehensive income (see Note 12). As at March 31, 2024 and 2023, the Company has not committed to short-term leases.

10. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Trade payables:			
Related party	16.1	P 458,947,681	P 478,526,675
Others		<u>29,380,629</u>	<u>17,453,632</u>
		<u>488,328,310</u>	<u>495,980,307</u>
Other payables:			
Accrued expenses		32,863,309	22,374,208
Return liabilities		2,625,663	2,625,663
Payables to government		1,467,421	656,318
Salaries and wages payable		781,539	1,378,536
Output VAT		<u>-</u>	<u>2,735,913</u>
		<u>37,737,932</u>	<u>29,770,638</u>
		<u>P 526,066,242</u>	<u>P 525,750,945</u>

Accrued expenses include the Company's obligations relating to the accrual of expense related to reimbursements of sales agent, storage fees, utilities, professional fees and other expenses.

11. REVENUES

The breakdown of revenues is presented below.

	<u>2024</u>	<u>2023</u>
Sales	P 630,941,403	P 541,598,152
Sales discounts	(17,780,872)	(130,989)
Sales returns and allowances	<u>-</u>	<u>(19,814)</u>
	<u>P 613,160,531</u>	<u>P 541,447,349</u>

A summary of additional disaggregation from the revenues are shown below.

	<u>2024</u>	<u>2023</u>
Central nervous system drugs	P 355,129,987	P 346,167,948
Oncology drugs	244,529,115	185,069,500
Ophthalmology	15,105,240	7,602,410
Dermatology	13,058,653	-
Antibiotic	<u>3,118,408</u>	<u>2,758,294</u>
	<u>P 630,941,403</u>	<u>P 541,598,152</u>

12. OPERATING EXPENSES BY NATURE

The Company's operating expenses are as follows:

	<u>Notes</u>	<u>2024</u>	<u>2023</u>
Selling and distribution		P 133,906,188	P 111,714,151
Net purchases	16.1	129,114,250	402,826,192
Change in inventories		100,496,928	(136,551,150)
Salaries and employee benefits	14, 16.3	74,811,982	66,796,581
Loss on inventory obsolescence - net of reversal	6	46,058,801	2,200,959
Depreciation and amortization	7, 8, 9.1	21,309,089	11,631,013
Professional fees		17,867,755	11,535,470
Transportation and travel		16,683,509	12,677,038
Input VAT on exempt sales		10,451,376	18,249,267
Insurance		6,586,082	4,632,869
Taxes and licenses		4,803,975	2,970,672
Communications		4,045,400	3,310,688
Rentals	9.3	1,888,798	594,410
Repairs and maintenance		1,755,857	1,736,062
Office supplies		625,849	607,822
Utilities		343,734	537,552
Others	9.2, 14.2	4,671,284	4,214,825
		<u>P 575,420,857</u>	<u>P 519,684,421</u>

Others include bank charges, registration fees, interest expense from lease liabilities and retirement benefit obligation, and other miscellaneous expenses.

These expenses are classified in the statements of comprehensive income as follows:

	<u>2024</u>	<u>2023</u>
Cost of goods sold	P 229,611,178	P 266,275,042
Selling and administrative expenses	<u>345,809,679</u>	<u>253,409,379</u>
	<u>P 575,420,857</u>	<u>P 519,684,421</u>

13. OTHER INCOME (CHARGES)

This account consists of:

	<u>Notes</u>	<u>2024</u>	<u>2023</u>
Other income:			
Gain on disposals of assets	8	P 2,001,980	P 164,493
Interest income	4, 5	133,296	93,182
Others		<u>-</u>	<u>4,621</u>
		<u>2,135,276</u>	<u>262,296</u>
Other charges:			
Foreign exchange loss - net	16.1, 16.2	(25,450,979)	(19,665,169)
Impairment loss on trade and other receivables	5	(<u>3,051,941</u>)	(<u>590,995</u>)
		(<u>28,502,920</u>)	(<u>20,256,164</u>)
		(<u>P 26,367,644</u>)	(<u>P 19,993,868</u>)

Others include gain from reversal of long outstanding payables which were deemed not to be collectible anymore, gain from car insurance proceeds, and miscellaneous income in fiscal year 2023. There was no similar transaction in fiscal year 2024.

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2024</u>	<u>2023</u>
Short-term employee benefits		P 73,949,584	P 66,281,647
Post-employment defined benefits	14.2	<u>862,398</u>	<u>514,934</u>
	12, 16.3	<u>P 74,811,982</u>	<u>P 66,796,581</u>

14.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Company does not have an established retirement benefit plan and only conforms to the minimum regulatory benefit under the Republic Act No. 7641 *Retirement Pay Law*, which is of the final salary defined benefit type and provides retirement benefit equal to 22.5 day pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement.

In accordance with the provisions of the Labor Code, the Company is required to pay eligible employees at least the minimum regulatory benefit upon retirement, subject to age and service requirements. Since the Company does not have any formal, trustee retirement plan, there are no Trustees yet. Moreover, there are no unusual or significant risk to which the retirement obligation exposes the Company. However, it should be noted that in the event a benefit claim arises under the retirement obligation, the benefit shall immediately be due and payable from the Company.

In fiscal year 2024 and 2023, the Company engaged an independent actuary to determine the valuation of its retirement obligation.

(b) *Explanation of Amounts Presented in the Financial Statements*

All amounts presented below are based on the actuarial valuation report obtained from an independent actuary.

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

	<u>2024</u>		<u>2023</u>
Balance at beginning of year	P 3,151,956	P	2,496,299
Current service cost	862,398		514,934
Interest expense	206,776		140,292
Remeasurements –			
Actuarial losses (gains) arising from:			
Experience adjustments	332,415		1,514,992
Change in financial assumptions	162,206	(410,318)
Benefits paid	<u>-</u>	(<u>1,104,243</u>)
Balance at end of year	<u>P 4,715,751</u>	P	<u>3,151,956</u>

The components of amounts recognized in profit or loss and in other comprehensive loss in respect of the defined benefit post-employment plan are as follows:

	<u>2024</u>		<u>2023</u>
<i>Reported in profit or loss:</i>			
Current service cost	P 862,398	P	514,934
Interest expense	<u>206,776</u>		<u>140,292</u>
	<u>P 1,069,174</u>	P	<u>655,226</u>
<i>Reported in other comprehensive income loss –</i>			
Actuarial gains (losses) arising from:			
Experience adjustments	(P 332,415)	(P	1,514,992)
Change in financial assumptions	(<u>162,206</u>)		<u>410,318</u>
	<u>(P 494,621)</u>	(P	<u>1,104,674</u>)

Current service cost is presented as part of Salaries and employee benefits, while the interest expense is recognized as part of Others both under Selling and Administrative Expense account in the statements of comprehensive income (see Note 12).

Amounts recognized in other comprehensive loss are considered as items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation as at March 31, 2024 and 2023, the following significant actuarial assumptions were used:

	<u>2024</u>	<u>2023</u>
Discount rate	6.26%	6.56%
Expected rate of salary increases	5.00%	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 20.8 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating to the terms of the post-employment benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risk associated with the Retirement Plan*

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

(i) *Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the retirement obligation.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, and the timing and uncertainty of future cash flows related to the retirement plan is presented below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation:

	<u>Impact on Post-employment Benefit Obligation</u>			
	<u>Change in Assumption</u>		<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
March 31, 2024				
Discount rate	+/-1.00%	P	595,329 (P	514,470)
Salary increase rate	+/-1.00%		596,897 (524,853)
March 31, 2023				
Discount rate	+/-1.00%	(P	376,180) P	438,604
Salary increase rate	+/-1.00%		441,112 (384,746)

(ii) *Funding Arrangements and Expected Contributions*

The plan is currently unfunded based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The undiscounted expected benefit payments amounting to P1.0 million from the plan is expected to be realized within one year to five years.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 11.8 years.

15. TAXES

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

	<u>2024</u>		<u>2023</u>
Current tax expense:			
Regular corporate income tax (RCIT)	P 9,196,440	P	-
Application of minimum corporate income tax (MCIT)	(2,754,156)		-
Final tax at 20%	5,126		2,855
MCIT at 1.75% in 2024 and 1% in 2023	<u>-</u>		<u>2,754,156</u>
	<u>P 6,447,410</u>	P	<u>2,757,011</u>

A reconciliation of tax on pretax income computed at the applicable statutory tax rates to tax expense reported in profit or loss follows:

	<u>2024</u>		<u>2023</u>
Tax on pretax income at 25%	P 2,843,008	P	442,265
Adjustment for income subjected to lower income tax rate	(3,417)	(1,903)
Tax effects of:			
Unrecognized deferred tax asset on other temporary differences	14,224,956		2,313,143
Application of net operating loss carry-over (NOLCO)	(8,088,260)		-
Application of MCIT	(2,754,156)		-
Non-deductible expenses	225,279		3,506
	<u>P 6,447,410</u>		<u>P 2,757,011</u>

As at March 31, 2024 and 2023, the Company has not recognized the deferred tax assets related to the items below.

	<u>Tax Base</u>		<u>Tax Effect</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Lease liabilities	P 33,082,683	P 40,560,502	P 8,270,671	P 10,140,126
Right-of-use assets	(31,318,429)	(39,168,141)	(7,829,607)	(9,792,035)
Allowance for inventory obsolescence	53,844,360	14,897,758	13,461,090	3,724,440
Unrealized foreign exchange loss	17,861,734	4,401,511	4,465,434	1,100,378
Allowance for impairment loss	8,205,440	5,153,499	2,051,360	1,288,375
Retirement benefit obligation	4,449,511	3,380,345	1,112,378	845,086
Return liabilities	2,625,663	2,625,663	656,416	656,416
NOLCO	-	32,353,038	-	8,088,259
Excess MCIT	-	2,754,156	-	2,754,156
Inventory written-off	-	2,562,219	-	640,555
Unrecognized deferred tax asset	<u>P 88,750,962</u>	<u>P 69,520,550</u>	<u>P 22,187,742</u>	<u>P 19,445,756</u>

The Company is subject to the MCIT which is computed at 1.75% and 1% in fiscal year 2024 and 2023, respectively, of gross income, as defined under the tax regulations or RCIT, whichever is higher. The MCIT may be claimed as tax credit against the Company's future income tax payable within three years from the year it was incurred.

In fiscal year 2023, the Company reported MCIT as it is higher than the RCIT, while in fiscal year 2024, the Company reported RCIT.

The Company's excess MCIT amounting to P2,754,156 is applied as a deduction against its tax expense for the fiscal year 2024.

In fiscal year 2024, the Company applied during the taxable year its NOLCO amounting to P32,353,038.

In fiscal year 2024 and 2023, the Company opted to continue claiming itemized deductions.

16. RELATED PARTY TRANSACTIONS

The Company's related parties include the ultimate parent company, parent company, and the Company's key management personnel.

The summary of the Company's transactions and outstanding balances with its related parties are as follows:

Related Party	Note	2024		2023	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Ultimate Parent Company – Purchase of inventories	16.1	(P 19,578,994)	(P 458,947,681)	(P 402,826,192)	(P 478,526,675)
New Parent Company – Advances	16.2	8,777,304	(315,845,131)	27,302,609	(324,622,435)
Key management personnel – Compensation	16.3	(12,311,789)	-	(9,765,824)	-

16.1 Purchase of Inventories

The Company purchases from its ultimate parent company inventories sold to its distributors and product samples distributed to sales representatives as part of the Company's marketing and promotional activities (see Note 12). The related outstanding payables are presented as part of Trade payables under Trade and Other Payables account in the statements of financial position (see Note 10). The payables are generally unsecured, noninterest-bearing, and payable in cash within three months.

In fiscal year 2024 and 2023, the Company recognized unrealized gain amounting to P7.0 million and P4.0 million, respectively, related to outstanding trade payable from these transactions, which is presented as part of Foreign exchange loss – net, under Other Charges - net in the statements of comprehensive income (see Note 13).

16.2 Advances from Parent Company

The Company obtained advances from former parent company that are unsecured, noninterest-bearing and payable on demand or through offsetting arrangements. The advances were used to finance working capital requirements of the Company.

On July 1, 2021, the former parent company assigned to Sun Pharma (Netherlands) B.V. all its rights, title, interest, and benefits in and to the outstanding advances from former Parent Company.

The analysis of advances, presented as Advances from Parent Company in the statements of financial position, is shown below.

	<u>Note</u>	<u>2024</u>	<u>2023</u>
Balance at beginning of year		P 324,622,435	P 351,924,704
Payments during the year		(19,408,000)	(11,686,837)
Cash flows from a non-cash financing activity – Unrealized foreign exchange loss (gain)	13	<u>10,630,696</u>	<u>(15,615,432)</u>
Balance at end of year		<u>P 315,845,131</u>	<u>P 324,622,435</u>

16.3 Key Management Personnel Compensation

Compensation of key management in fiscal year 2024 and 2023, representing short-term employee benefits, amounted to P12.3 million and P9.8 million, respectively, shown as part of Salaries and Employee Benefits under Selling and Administrative Expenses in the statements of comprehensive income (see Notes 12 and 14).

17. CAPITAL STOCK

The Company's authorized capital stock is P10.0 million divided into 100,000 shares at P100 par value per share. The Company's subscribed and outstanding capital stock as at March 31, 2024 and 2023 amounted to P8.7 million divided into 86,534 shares at P100 par value per share.

As at March 31, 2024 and 2023, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

18. COMMITMENTS AND CONTINGENCIES

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

19. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

19.1. Interest Rate Risk

As at March 31, 2023 and 2022, the Company has limited exposure to changes in market interest rates through its cash in bank. This financial instrument has shown small or measured changes in interest rates. Advances to employees have fixed interest rate.

19.2. Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Company's overseas advances and purchases, which are primarily denominated in United States (U.S.) dollars.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial liabilities, translated from U.S. dollars into Philippine pesos at the closing rate follow:

	<u>2024</u>	<u>2023</u>
<i>Short-term exposure:</i>		
Trade and other payables	P 458,947,681	P 478,526,675
Advances from parent company	<u>315,845,131</u>	<u>324,622,435</u>
	<u>P 774,792,812</u>	<u>P 803,149,110</u>

The table below illustrates the sensitivity of the Company's income before tax with respect to changes in Philippine peso against U.S. exchange rate. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 68% confidence level.

	<u>2024</u>			<u>2023</u>		
	Reasonably possible change in rate	Effect in income before tax	Effect in capital deficiency after tax	Reasonably possible change in rate	Effect in income before tax	Effect in capital deficiency after tax
PhP - USD	+4.78%	(P 37,035,096)	P 27,776,322	+5.62%	(P 45,136,980)	P 33,852,735
PhP - USD	-4.78%	37,035,096	(27,776,322)	-5.62%	45,136,980	(33,852,735)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

19.3. Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from selling goods and services to customers including related parties and placing deposits with banks.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position (or in the detailed analysis provided in the notes to the financial statements), as summarized below.

	Notes	<u>2024</u>	<u>2023</u>
Cash	4	P 79,767,271	P 59,069,876
Trade and other receivables - net	5	227,460,758	170,163,259
Refundable deposits	7	<u>3,484,814</u>	<u>4,013,501</u>
		<u>P 310,712,843</u>	<u>P 233,246,636</u>

The Company continuously monitors defaults of customers identified individually and incorporate this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

(a) *Cash*

The credit risk for cash is considered negligible since the counterparty is reputable bank with high quality external credit rating. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables*

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected credit loss allowance for all trade and other receivables.

To measure the ECL, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The other receivables relate to receivables from both third and related parties other than trade receivables and have substantially the same risk characteristics as the trade receivables. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

The expected loss rates are based on the provision matrix as determined by management. The loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. In 2024 and 2023, the Company has identified inflation in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

On that basis, the loss allowance as at March 31, 2024 and 2023 was determined based on days past due, as follows for both trade and other receivables:

	<u>Not more than 180 days</u>	<u>181 to 360 days</u>	<u>Over 360 days</u>	<u>Total</u>
<u>March 31, 2024</u>				
Expected loss rate	1.16%	100%	100%	
Gross carrying amount:				
Trade receivables	P 229,753,380	P 3,159,079	P 2,206,573	P 235,119,032
Other receivables	14,680,965	-	-	14,680,965
Loss allowance	2,839,788	3,159,079	2,206,573	8,205,440
<u>March 31, 2023</u>				
Expected loss rate	0%	100%	100%	
Gross carrying amount:				
Trade receivables	P 169,625,875	P 1,756,912	P 3,396,587	P 174,779,374
Other receivables	537,384	-	-	537,384
Loss allowance	-	1,756,912	3,396,587	5,153,499

(c) *Refundable Deposits*

In respect of refundable deposits, the Company is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information, management consider the credit quality of refundable deposit to be good.

None of the financial assets are secured by collateral or other credit enhancements aside from cash in banks.

19.4. Liquidity Risk

The Company manages its liquidity needs by carefully monitoring cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 45-day period.

The analyses of the Company's financial liabilities based on the expected interest realization or recognition are as follows:

	<u>Due Within One Year</u>	<u>Due Beyond One Year</u>	<u>Total</u>
<u>March 31, 2024</u>			
Trade and other payables	P 3,515,792	P -	P 3,515,792
Advances from the parent company	311,469,641	-	311,469,641
Lease liabilities	<u>7,911,180</u>	<u>25,857,378</u>	<u>33,768,558</u>
Total	<u>P 322,896,613</u>	<u>P 25,857,378</u>	<u>P 348,753,991</u>

	<u>Due Within One Year</u>	<u>Due Beyond One Year</u>	<u>Total</u>
<u>March 31, 2023</u>			
Trade and other payables	P 522,358,714	P -	P 522,358,714
Advances from the parent company	324,622,435	-	324,622,435
Lease liabilities	<u>8,405,450</u>	<u>33,465,986</u>	<u>41,871,436</u>
Total	<u>P 855,386,599</u>	<u>P 33,465,986</u>	<u>P 888,852,585</u>

20. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

20.1 Carrying Amounts and Fair Values by Category

The Company's financial assets and financial liabilities carried at amortized cost as presented in the statements of financial position are short-term in nature. Since the carrying value of the financial assets and liabilities approximate or are equal their fair values, a comparison between these values is no longer presented.

A description of the Company's risk management objectives and policies for financial instruments is provided in Note 19.

20.2 Offsetting of Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2023 and 2022 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis.

21. FAIR VALUE MEASUREMENT AND DISCLOSURES

21.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

21.2 Financial Instruments Measurement at Amortized Cost for which Fair Value is Disclosed

The carrying values of the Company's financial assets and financial liabilities approximate their fair values as at the end of the reporting period (see Note 20.1). Among the financial assets and financial liabilities of the Company, only cash is classified as Level 1 under fair value hierarchy, while the rest are Level 3.

22. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the statement of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Company's total capital deficiency as at March 31, 2024 and 2023 amounted to P339.9 million and P344.3 million, respectively.

23. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

23.1 Requirements Under Revenue Regulations (RR) No. 15-2010

Presented below and in the succeeding page is the supplementary information which is required by the BIR RR No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below.

(a) Output VAT

In 2024, the Company declared output VAT as follows:

	<u>Tax Base</u>	<u>Output VAT</u>
Sale of goods:		
Taxable revenues	P 145,565,739	P 17,467,889
Exempt revenues	467,594,793	-
Other income	<u>2,001,980</u>	<u> </u>
Total	<u>P 615,162,512</u>	<u>P 17,467,889</u>

Pursuant to Section 108(B), *Zero-rated VAT on Sale of Service*, and Section 109, *VAT Exempt Transactions*, of the NIRC, as amended, the Company had no zero-rated sales for 2024.

In fiscal year 2024, the Company's output VAT was settled through application of available input VAT amounting to P6,311,949.

Accordingly, the Company has P6,311,949 outstanding output VAT payable, which is recognized as part of Trade and Other Payables in the 2023 statement of financial position.

The Company has sales to government amounting to P1,216,123 and paid P107,040 output VAT accordingly.

(b) *Input VAT*

The movements in input VAT for the fiscal year ended March 31, 2024 are summarized below.

Balance at beginning of year	P	-
Importation of goods		17,146,484
Purchase of services		11,019,436
Domestic purchase of goods other than capital goods		3,004,998
Purchase of capital goods		-
Applied against output VAT	(17,458,406)
Input tax allocable to exempt sales	(8,639,598)
Input VAT on government sales closed to expense	(<u>48,736</u>)
	P	<u>5,024,178</u>

The total deferred input VAT amounted to P2,157,224 as at March 31, 2024.

(c) *Customs Duties*

The Company paid for customs duties amounting to P2,324,885 for the importation of goods for the fiscal year ended March 31, 2024.

(d) *Excise Tax*

The Company does not have any transaction which is subject to excise tax.

(e) *Documentary Stamp Tax (DST)*

The Company paid DST related to its insurance policy amounting to P34,149 for the fiscal year ended March 31, 2024.

(f) *Taxes and Licenses*

The summary of Taxes and licenses, reported under Selling and Administrative Expenses in the 2024 statement of comprehensive income is broken down as follows:

Municipal licenses and permits	P	4,215,481
DST		34,149
Others		<u>554,345</u>
	P	<u>4,803,975</u>

(g) *Withholding Taxes*

The details of total withholding taxes for the year ended March 31, 2024 follow:

Compensation and benefits	P 10,691,378
Expanded	<u>6,758,333</u>
	<u>P 17,449,711</u>

In 2024, the Company has no final tax paid since it does not have any transactions subject to final tax.

(h) *Deficiency Tax Assessment and Tax Cases*

In June 2023, the Company has settled deficiency taxes relating to taxable year 2022 income tax, value added tax, and expanded withholding tax totaling P1,001,685, inclusive of P107,403 interest and P25,000 compromise penalty, which is recognized as part of Miscellaneous Expense under Selling and Administrative Expenses account in the 2024 statement of comprehensive income.

Termination letter was received from the BIR on July 28, 2023.

23.2 Requirements Under RR No. 34-2020

RR No. 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Company is not covered by these requirements as the Company did not fall in any of the categories identified under Section 2 of RR No. 34-2020. This supplementary information is not a required disclosure under PFRS.