Zydus
dedicated to life

Zydus Healthcare
Philippines Inc.
(A Fully Owned Subsidiary
Cadila Healthcare LTD. India)
Unit 903 and 904, 9F Ecotower,
32nd Street Cor. 9th Avenue,
Bonifacio Global City, Taguig, Philippines

Tel. No. : (632) 815-1124, 815-1128
(632) 815-1131, 815-1134
(632) 815-1136
Fax No. : (632) 403-9529, 403-9457
Email : info@zydusphils.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **ZYDUS HEALTHCARE PHILS INC** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, 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 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 to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Ketankumar Arajabhai Bhut
Chairman of the Board

Vikas Jain
President

George JG Ranjan Tanuku
Chief Financial ~~Officer~~/Treasurer

Signed this _____ day of _________

APR 30 2019
BUREAU OF INTERNAL REVENUE
REVENUE REGION ...
Revenue District ...
Taguig/...
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INITIALS ... NAME: SARAH ...

COVER SHEET
for
GENERAL INFORMATION SHEET

SEC Registration Number

C	S	2	0	1	3	1	3	3	9	4

Company Name

ZYDUS HEALTHCARE PHILIPPINES INC

Principal Office (No./Street/Barangay/City/Town)Province)

UNITS 903 & 904 ECOTOWER 32ND STREET, COR. NINTH AVENUE BONIFACIO GLOBAL CITY TAGUIG

Form Type	Department requiring the report	Secondary License Type, If Applicable
AFS 2018	SEC	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
ranjantg@zydusphils.com	815-1124	09175563207

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
N. A.	31-Mar	31-Dec

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
GEORGE JG RANJAN TANUKU	ranjantg@zydusphil.com	815-1124	09175563207

Contact Person's Address

UNITS 903 & 904 ECOTOWER, 32ND STREET, COR. NINTH AVE, BONIFACIO GLOBAL CITY, TAGUIG

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

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Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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Report of Independent Certified Public Accountants to Accompany Income Tax Return

The Board of Directors
Zydus Healthcare Philippines, Inc.
(A Wholly Owned Subsidiary of
Cadila Healthcare Limited, India)
Units 903 and 904, Ecotower
32nd Street corner 9th Avenue
Bonifacio Global City, Taguig City

We have audited the financial statements of Zydus Healthcare Philippines, Inc. (the Company) for the year ended December 31, 2018, on which we have rendered the attached report dated March 29, 2019.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholder of the Company.

PUNONGBAYAN & ARAULLO

By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 7333689, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

APR 30 2019
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INITIAL: DATE:
NAME: FARAH JANE

March 29, 2019

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6766 Ayala Avenue
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Report of Independent Auditors

The Board of Directors
Zydus Healthcare Philippines, Inc.
(A Wholly Owned Subsidiary of
Cadila Healthcare Limited, India)
Units 903 and 904, Ecotower
32nd Street corner 9th Avenue
Bonifacio Global City, Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zydus Healthcare Philippines, Inc. (the Company), which comprise the statements of financial position as at December 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 a summary of significant accounting policies.

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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APR 3 0 2019

- 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 December 31, 2018 required by the Bureau of Internal Revenue, as disclosed in Note 19 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 the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 7333689, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-3 (until Dec. 22, 2019)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-21-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 29, 2019

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes		2018		2017
A S S E T S					
CURRENT ASSETS					
Cash	4	P	91,589,852	P	62,058,815
Trade and other receivables	5		141,741,779		155,954,125
Inventories - net	6		48,324,186		31,748,628
Other current assets	8		8,857,110		6,840,376
Total Current Assets			290,512,927		256,601,944
NON-CURRENT ASSETS					
Property and equipment - net	7		12,079,185		8,666,716
Deferred tax assets - net	13		15,408,335		15,452,860
Other non-current assets	8		3,187,293		2,502,309
Total Non-current Assets			30,674,813		26,621,885
TOTAL ASSETS		P	321,187,740	P	283,223,829
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Trade and other payables	9	P	82,026,902	P	48,906,311
EQUITY	14				
Capital stock			259,483,000		259,483,000
Additional paid-in capital			720,000		720,000
Deficit		(	21,042,162)	(	25,885,482)
Total Equity			239,160,838		234,317,518
TOTAL LIABILITIES AND EQUITY		P	321,187,740	P	283,223,829

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
SALE OF GOODS	2	P 379,969,815	P 311,162,214
COST OF GOODS SOLD	11	71,755,203	58,253,135
GROSS PROFIT		308,214,612	252,909,079
OTHER OPERATING EXPENSES	11		
Selling expenses		253,493,929	232,199,507
Administrative expenses		37,483,925	55,033,431
		290,977,854	287,232,938
OPERATING INCOME (LOSS)		17,236,758	(34,323,859)
OTHER INCOME (CHARGES)			
Reimbursable income (charges)	10	(9,896,087)	48,788,108
Other income	12	7,269,507	633,136
Finance charges	12	(1,420,920)	(226,696)
		(4,047,500)	49,194,548
INCOME BEFORE TAX		13,189,258	14,870,689
TAX EXPENSE	13	6,849,875	4,843,447
NET PROFIT		6,339,383	10,027,242
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		P 6,339,383	P 10,027,242

See Notes to Financial Statements.

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ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Capital Stock (see Note 14)	Additional Paid-in Capital (see Note 14)	Deficit	Equity
Balance at January 1, 2018				
As previously reported	P 259,483,000	P 720,000	(P 25,885,482)	P 234,317,518
Effect of adoption of PFRS 15 (see Note 2)	-	-	(1,496,063)	(1,496,063)
As restated	259,483,000	720,000	(27,381,545)	232,821,455
Total comprehensive income for the year	-	-	6,339,383	6,339,383
Balance at December 31, 2018	**P 259,483,000**	**P 720,000**	**(P 21,042,162)**	**P 239,160,838**
Balance at January 1, 2017	P 259,483,000	P 720,000	(P 35,912,724)	P 224,290,276
Total comprehensive income for the year	-	-	10,027,242	10,027,242
Balance at December 31, 2017	P 259,483,000	P 720,000	(P 25,885,482)	P 234,317,518

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 13,189,258	P 14,870,689
Adjustments for:			
Depreciation and amortization	7	3,729,025	3,973,530
Loss on inventory write-down	6	1,651,644	1,414,124
Unrealized foreign currency loss (gains) - net	12	1,109,275	(130,291)
Gain on sale of transportation equipment and computer equipment and software	12	(728,577)	(173,571)
Reversal of refund liability	12	(2,137,233)	-
Interest income	12	(49,394)	(29,519)
Operating profit before working capital changes		16,763,998	19,924,962
Decrease (increase) in trade and other receivables		14,212,346	(13,657,118)
Decrease (increase) in inventories		(18,227,202)	24,204,104
Increase in other current assets		(8,171,035)	(5,232,978)
Decrease (increase) in other non-current assets		(684,984)	400,000
Increase in trade and other payables		33,857,276	6,751,597
Cash generated from operations		37,750,399	32,390,567
Cash paid for final taxes	13	(9,879)	(5,904)
Net Cash From Operating Activities		37,740,520	32,384,663
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(7,424,419)	(4,443,353)
Proceeds from sale of property and equipment	7	1,011,502	330,000
Interest received		49,394	29,519
Net Cash Used in Investing Activities		(6,363,523)	(4,083,834)
Effect of Foreign Exchange Rate Changes on Cash		(1,845,960)	(2,054,824)
NET INCREASE IN CASH		29,531,037	26,246,005
CASH AT BEGINNING OF YEAR		62,058,815	35,812,810
CASH AT END OF YEAR		P 91,589,852	P 62,058,815

See Notes to Financial Statements.

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ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Zydus Healthcare Philippines, Inc. (the Company) was incorporated in the Philippines on July 12, 2013. The Company was established primarily to engage in, conduct and carry on the general business of formulation, trading, buying, importing, exporting, marketing, distributing and selling at wholesale pharmaceutical raw material, bulk drug intermediaries, cosmetics, medical supplies, devices, equipment and other related products; and otherwise dealing in all kinds of goods, wares and merchandise of every kind and description. The Company started its commercial operations in February 2015.

The Company is a wholly owned subsidiary of Cadila Healthcare Limited, India (Cadila or the parent company), a listed foreign company organized and existing under the laws of India.

The Company's registered office is located at Units 903 and 904, Ecotower, 32nd Street corner 9th Avenue, Bonifacio Global City, Taguig City. Cadila's registered office, which is also its principal place of business, is located at Zydus Tower Satellite, Crossroads, Ahmedabad, Gujarat, India.

The financial statements of the Company as of and for the year ended December 31, 2018 (including the comparative financial statements as of and for the year ended December 31, 2017) were authorized for issue by the Company's Board of Directors (BOD) on March 29, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies 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 presented.

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 Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The Company is qualified as a medium-sized entity (ME) based on the criteria set by the Securities and Exchange Commission (SEC). Entities qualifying as ME are required to use PFRS for SMEs as their financial reporting framework. However, as allowed under the exemptions provided by the SEC from mandatory adoption of PFRS for SMEs, the Company has opted to use PFRS in the preparation of its financial statements on the basis that the country where the Company's parent company is located is preparing its financial statements in accordance with International Financial Reporting Standards.

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 expenses and other comprehensive income or loss, if any, 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. Functional currency is the currency of the primary economic environment in which the Company operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Company

The Company adopted for the first time the following new PFRS and interpretation, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Discussed below and in the succeeding pages are the relevant information about these standards and interpretation.

(i) PFRS 9 (2014), *Financial Instruments*. This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013 versions. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments; i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at FVTPL which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The Company has applied the new standard as of January 1, 2018 in accordance with the transitional relief allowed by the standard, but it did not result to an adjustment in the opening balance of Retained Earnings.

The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Notes 2.3 and 2.7 while the related disclosure on credit risk is presented in Note 16.2.

(ii) PFRS 15, *Revenue from Contracts with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as *PFRS 15)*. This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.10) and adjustments to the amounts recognized in the Company's financial statements. The Company has applied the new standard in accordance to the transitional relief as allowed by the new standard, with the cumulative effect of initial application recognized as an adjustment to the opening balance of Retained Earnings account at January 1, 2018.

The impact of the adoption of PFRS 15 to the Company's Retained Earnings as of January 1, 2018 is shown below.

As previously stated	(P	25,885,482)
Impact of PFRS 15 [see Note 2.2(a)(ii)] –		
Recognition of refund liability	(	2,137,233)
Deferred tax asset		641,170
		1,496,063
As restated	**(P**	**27,381,545)**

The Company is giving its customers a right to return the goods within a given period provided that the goods returned are damaged, expired or in a non-saleable condition. When the customer exercises its right to return, the Company is obliged to refund the related purchase price. Using the historical information of the Company's sales return, the Company was able to estimate a refund liability amounting to P2.1 million in 2017 which was adjusted to Retained Earnings account as of January 1, 2018 (representing sales in 2017). As of December 31, 2018, the Company's refund liability amounted to P1.7 million. The liability is measured by reference to the original selling price. Refund liability is presented as part of Trade and Other Payables account in the statements of financial position.

Further, the Company did not recognize the corresponding right of return asset as of January 1, 2018 and December 31, 2018 (representing the cost of sales) due to immateriality of amount.

The adoption of PFRS 15 also required the Company to disclose disaggregation of revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. However, the Company no longer presents a disaggregation of revenue as it has only one revenue stream, which is sale of pharmaceutical products.

(iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration.* The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no material impact on the Company's financial statements.

(b) Effective in 2018 that are not Relevant to the Company

The following amendments to existing standards and annual improvements are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investments in Associates – Clarification on Fair Value Through Profit or Loss Classification
PFRS 1 (Amendments)	:	First-time Adoption of Philippines Financial Reporting Standards – Deletion of Short-term Exemptions

(c) Effective Subsequent to 2018 but not Adopted Early

There are new PFRS, amendments, interpretations and annual improvements to existing standards effective for annual periods subsequent to 2018 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

(i) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the solely payments of principal and interest (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

(ii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of Retained Earnings account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Company's financial statements.

(iii) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this new interpretation in its financial statements.

(iv) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the amendment on PAS 12, *Income Taxes – Tax Consequences of Dividends,* is relevant to the Company but had no material impact on the financial statements as this amendment merely clarifies the existing requirement that all income tax consequence of dividend payments should be recognized in profit or loss.

2.3 Financial Assets

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at FVTPL. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding page.

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

All of the Company's financial assets meet these criteria and are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost is presented as Cash, Trade and Other Receivables (excluding Employee advances for liquidation), Construction deposit (presented as part of Other Current Assets account) and Security deposit (presented as part of Other Non-current Assets account) in the statement of financial position. Cash comprises cash on hand and demand deposits maintained in local banks that is unrestricted, readily available for use in the Company's operations and generally earning interest based on daily bank deposit rates.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of comprehensive income as part of Other Income.

The Company can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Company is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Company's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The designation of financial assets is re-evaluated at every reporting date, at which date, a choice classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standard.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period which are classified as non-current assets.

The Company's financial assets at amortized cost is presented as Cash, Trade and Other Receivables (excluding Employee advances for liquidation), Construction deposit (presented as part of Other Current Assets account) and Security deposit (presented as part of Other Non-current Assets account) in the statement of financial position. Cash comprises cash on hand and demand deposits which earn interest based on average daily bank deposit rates.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories is recognized in the statement of profit or loss.

(c) *Impairment of Financial Assets under PFRS 9*

From January 1, 2018, the Company assesses its expected credit losses (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

As allowed under PFRS 9 for financial asset with no significant financing component, the Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for financial assets at amortized cost. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the expected credit losses, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using flow rates method.

The key elements used in the calculation of ECL are as follows:

- *Probability of default* – is an estimate of likelihood of default over a given time horizon.

- *Loss given default* – is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive.

- *Exposure at default* – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(d) Impairment of Financial Assets under PAS 39

As of December 31, 2017, impairment loss is provided when there is any objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined 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 or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be 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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in profit or loss.

(e) Derecognition of Financial Assets

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. For financial reporting purposes, cost of inventories include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities. For tax purposes, import duties and other taxes are claimed as deduction from taxable income in the year it was incurred.

NRV is the estimated selling price less the estimated costs necessary to make the sale.

2.5 Other Assets

Other assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

2.6 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

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

Transportation equipment	5 years
Office furniture, fixtures and equipment	3 to 5 years
Computer equipment and software	3 years

Leasehold improvements are amortized over their estimated useful life of three years or the term of lease, whichever is shorter.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The Company's property and equipment are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

The residual values, estimated useful lives and method of depreciation and amortization of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and amortization, and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.7 Financial Liabilities

Financial liabilities, which include Trade and Other Payables (except deferred rentals and tax-related liabilities) are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Finance Charges in the statement of comprehensive income.

Trade and other payables are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer) or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.8 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.9 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.10 Revenue and Expense Recognition

Revenue of the Company arises mainly from the sale of pharmaceutical products.

To determine whether to recognize revenue, the Company follows a five-step process:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

(i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
(iii) the payment terms for the goods or services to be transferred or performed can be identified;
(iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
(v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

(i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The Company often enters into transactions involving the selling at wholesale of pharmaceutical products. The Company determines that its revenue from sale of pharmaceutical products shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

The Company recognizes revenue net of trade discounts and provision for refund. Trade discounts are provided to customers depending on the volume of their purchases. Provision for refund is recognized in relation to right of return given to customers wherein they are allowed to return goods within a specific period. Right of return entitles a customer to a refund for the amount paid. Accordingly, a refund liability is also recognized by the Company. Provision for refund and refund liability is estimated based on historical information of the Company's sales return. Further, the corresponding cost of expected refund is recorded as right-of-return asset, if material.

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and expenses such costs as incurred. The Company also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Company accounts for those costs in accordance with accounting policies related to those financial reporting standards (see Note 2.6).

In 2017 and prior periods, the Company recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Company. Specifically, for sale of goods, revenues were recognized when the risks and rewards of ownership of the goods have passed to the buyer. Where the outcome of the contract cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred.

2.11 Leases

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentives received from lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.12 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.13 Impairment of Non-financial Assets

The Company's property and equipment and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Company provides employment benefits to employees through a statutory defined contribution plan, as well as other benefits.

(a) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity (i.e., Social Security System). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(b) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

2.15 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax 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.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Company has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority.

2.16 Related Party Transactions and Relationships

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

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

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

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital represents premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Deficit includes all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.18 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the 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 the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

(a) Determination of Timing of Satisfaction of Performance Obligations (2018)

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

(b) Determination of Transaction Price (2018)

The transaction price for a contract is allocated amongst the material right and other performance obligations identified in the contract based on their stand-alone selling prices, which are all observable. The transaction price for a contract excludes any amounts collected on behalf of third parties [e.g., value-added taxes (VAT)].

The transaction price is considered receivable to the extent of products sold with a right of return. Such variable consideration is estimated based on the method described on Note 3.2(b).

(c) Determination of ECL on Trade and Other Receivables (2018)

The Company uses a provision matrix to calculate ECL for trade and other receivables other than receivable from government hospitals. The provision rates are based on days past due.

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 method to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

ECL for receivables from government hospitals are based on the credit rating of the Philippines.

Details about the ECL on the Company's trade and other receivables are disclosed in Note 16.2.

(d) Distinction Between Operating and Finance Leases

Critical judgment was exercised by management to distinguish a lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. As of December 31, 2018 and 2017, management determined that its current lease agreements are operating leases.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and disclosures on relevant contingencies are presented in Note 15.

3.2 Key Sources of Estimation Uncertainty

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 are discussed in the succeeding pages.

(a) Estimation of Allowance for ECL (2018)

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 16.2.

(b) Estimation of Amounts Involving Right of Return (2018)

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

The Company recognizes provision for refund and refund liability in relation to right of return given to customers. Provision for refund and refund liability is estimated based on historical information of the Company's sales returns.

Provision for refund is offset against revenue while the carrying amount of refund liability as of December 31, 2018 is presented as part of Trade and Other Payables account in the 2018 statement of financial position.

(c) Determination of NRV of Inventories

In determining the NRV of inventories, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is continuously subject to changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 6 is affected by price changes in the pharmaceutical industry, the costs incurred necessary to make a sale and product expiration. 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) Estimation of Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment 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 property and equipment are analyzed in Note 7. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.13). 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.

There are no impairment losses recognized on the Company's property and equipment and other non-financial assets in 2018 and 2017 based on management's evaluation (see Notes 7 and 8).

(f) 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 recognized as at December 31, 2018 and 2017 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 13.

4. CASH

This account is composed of the following:

	2018	2017
Cash on hand	**P 2,276,750**	P 2,076,250
Cash in banks	**89,313,102**	59,982,565
	P 91,589,852	P 62,058,815

Cash on hand pertains to petty cash, tactical and revolving funds maintained by the Company for use in day-to-day operations. Cash in banks generally earn interest at rates based on daily bank deposit rates (see Note 12).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2018	2017
Trade receivables	10.1, 15.1	**P 138,470,773**	P 154,099,470
Employee advances		**3,271,006**	1,854,655
		P 141,741,779	P 155,954,125

Trade receivables pertain to receivables from Company's distributors from the sale of pharmaceutical products. The Company does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparties.

Employee advances represent cash advances of employees to defray various expenses incurred in operations and are liquidated within 30 days from the date of activity.

All of the Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables and other receivables were assessed to have expected credit loss as determined by the management; however, no allowance for credit losses were recognized as of December 31, 2018 and 2017 (see Note 16.2).

6. INVENTORIES

Inventories as of December 31, 2018 and 2017 measured at cost and at NRV are summarized below.

	Note	2018	2017
At Cost:			
Products for sale	11.1	**P 48,319,711**	P 31,691,973
Promotional samples		**4,475**	56,655
		48,324,186	31,748,628
At NRV:			
Products and promotional samples		**5,384,504**	3,732,860
Allowance for write-down to NRV		**(5,384,504)**	(3,732,860)
		-	-
		P 48,324,186	P 31,748,628

A reconciliation of the allowance for inventory write-down at the beginning and end of 2018 and 2017 is shown below.

	2018	2017
Balance at beginning of year	**P 3,732,860**	P 2,318,736
Losses on inventory write-down	**1,651,644**	1,414,124
Balance at end of year	**P 5,384,504**	P 3,732,860

Losses on inventory write-down is presented as part of Administrative Expenses section in the statements of comprehensive income (see Note 11.2). The allowance for write-down to NRV represents the costs of inventories that are expired and expiring in six months as at December 31, 2018 and 2017.

In 2018 and 2017, certain expired inventories with total cost of P6.7 million and P30.9 million were destroyed under the supervision of duly authorized representatives of the Bureau of Internal Revenue (BIR) and the Department of Environment and Natural Resources. The said loss on destruction of expired inventories is presented as part of Write-off of Inventories account under the Administrative Expenses section in the statements of comprehensive income (see Note 11.2).

An analysis of the inventories charged to Cost of Goods Sold for the year ended December 31, 2018 and 2017 is presented in Note 11.1.

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2018 and 2017 are as follows:

	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Computer Equipment and Software	Total
December 31, 2018					
Cost	P 16,774,333	P 427,339	P -	P 4,788,318	P 21,989,990
Accumulated depreciation and amortization	(6,211,624)	(75,079)	-	(3,624,102)	(9,910,805)
Net carrying amount	P 10,562,709	P 352,260	P -	P 1,164,216	P 12,079,185
December 31, 2017					
Cost	P 11,929,440	P 1,220,604	P 2,473,776	P 4,547,488	P 20,171,308
Accumulated depreciation and amortization	(5,507,017)	(1,220,604)	(2,473,776)	(2,303,195)	(11,504,592)
Net carrying amount	P 6,422,423	P -	P -	P 2,244,293	P 8,666,716
December 31, 2016					
Cost	P 8,466,226	P 1,220,604	P 2,473,776	P 3,854,135	P 16,014,741
Accumulated depreciation and amortization	(3,043,441)	(1,220,604)	(2,473,776)	(923,598)	(7,661,419)
Net carrying amount	P 5,422,785	P -	P -	P 2,930,537	P 8,353,322

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2018 and 2017 is shown below.

	Transportation Equipment	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Computer Equipment and Software	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 6,422,423	P -	P -	P 2,244,293	P 8,666,716
Additions	6,569,642	427,339	-	427,438	7,424,419
Disposals	(229,464)	-	-	(53,461)	(282,925)
Depreciation and amortization charges for the year	(2,199,892)	(75,079)	-	(1,454,054)	(3,729,025)
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 10,562,709**	**P 352,260**	**P -**	**P 1,164,216**	**P 12,079,185**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 5,422,785	P -	P -	P 2,930,537	P 8,353,322
Additions	3,750,000	-	-	693,353	4,443,353
Disposals	(156,429)	-	-	-	(156,429)
Depreciation and amortization charges for the year	(2,593,933)	-	-	(1,379,597)	(3,973,530)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 6,422,423	P -	P -	P 2,244,293	P 8,666,716

The Company recognized a gain on sale of transportation equipment amounting to P0.6 and P0.2 million in 2018 and 2017, respectively, which is presented as part of Other Income account in the statements of comprehensive income (see Note 12).

The Company also recognized a gain on sale of computer equipment amounting to P0.1 million in 2018 which is presented as part of Other Income account in the 2018 statement of comprehensive income. (see Note 12). There was no similar transaction in 2017.

In 2018, fully depreciated assets, which pertain to leasehold improvements with original cost of P3.7 million, were retired. There was no similar transaction in 2017.

As of December 31, 2018 and 2017, the cost of the Company's fully-depreciated property and equipment that are still in use amounts to P0.9 million and 4.8 million, respectively.

8. OTHER ASSETS

This account is composed of the following:

	Note	2018	2017
Current:			
Prepaid expenses		**P 5,390,345**	P 1,468,458
Deferred input VAT		**1,014,938**	680,590
Creditable withholding taxes		**696,456**	3,018,257
Construction deposit		**357,625**	357,625
Prepaid rent		**64,382**	411,499
Others		**1,333,364**	903,947
		P 8,857,110	P 6,840,376

	Note	2018	2017
Non-current:			
Advance rental deposit	15.2	P 1,636,485	P 1,095,595
Security deposit	15.2	1,550,808	1,406,714
		P 3,187,293	P 2,502,309

Construction deposit paid by the Company to the lessor of the office space it occupies is equivalent to one month rent of the Company. The construction deposit shall be released by the lessor upon the Company's compliance with the lessor's building fit-out guidelines and building administration requirements.

Prepaid rent resulted from discounting of security deposit which is amortized over the remaining lease term.

9. TRADE AND OTHER PAYABLES

This account is composed of the following:

	Notes	2018	2017
Trade payables:			
Related parties	10.1, 10.2	P 39,228,348	P 25,511,006
Third parties	15.1	9,170,234	5,326,073
Accrued expenses		26,856,200	14,673,844
Refund liability		1,673,092	-
Output VAT	19(a)	1,107,056	1,575,035
Deferred rentals		65,253	235,965
Others		3,926,719	1,584,388
		P 82,026,902	P 48,906,311

Accrued expenses pertain to accruals for senior citizens discount, sales and marketing expenses, incentives, and other expenses.

10. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, the Philippine Branch Office of the parent company, key management personnel and others as described in Note 2.16. Its transactions with related parties are presented below.

		2018		2017	
	Notes	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Parent Company:					
Reimbursable income (charges)	10.1	P 9,896,087	(P 5,903,454)	P 48,788,108	P 48,788,108
Purchase of goods	10.2	82,476,764	(33,324,894)	63,156,165	(25,511,006)
Key Management Personnel –					
Compensation	10.3	7,217,763	-	9,889,158	-

10.1 Reimbursable Income (Charges)

In 2016, the Company entered into a Supply and Distribution Agreement (the Agreement) with the parent company. As one of its provisions, the Agreement states that the parent company shall reimburse the Company for costs incurred for manufacturing, packaging and quality control defects and product recalls. In line with this, the Company billed the parent company for the costs incurred, including the inventory losses, plus a certain mark-up (see Note 11.2). The outstanding balance of these receivable as of December 31, 2017 amounted to P48.8 million and is presented as part of Trade receivables under Trade and Other Receivables account in the 2017 statement of financial position (see Note 5). The receivable arising from this transaction is noninterest-bearing, unsecured and payable in cash upon demand. The amount was fully collected in 2018.

In 2018, the Company was able to earn a net profit before reimbursable income or charges. If the Company earns more than a certain threshold on profit before tax, the excess in the threshold will be remitted to the Parent Company. The outstanding payable as of December 31, 2018 amounted to P5.9 million and is presented as part of Trade payables – related parties under Trade and Other Payables account in the 2018 statement of financial position (see Note 9). The payable arising from this transaction is noninterest-bearing, unsecured and payable in cash upon demand.

10.2 Purchase of Goods

In the ordinary course of business, the Company purchases goods from related parties. The total purchases from related parties are presented as Purchases under Cost of Goods Sold and Promotions and marketing (for promotional and free goods) under Selling Expenses (see Notes 11.1 and 11.2). The outstanding payable from these transactions is presented as Trade payables to related parties under Trade and Other Payables account in the statements of financial position (see Note 9). Such payable is unsecured, noninterest-bearing and generally settled in cash within three to six months.

10.3 Key Management Personnel Compensation

The total compensation (including salaries and short-term benefits) of the Company's key management personnel amounted to P7.2 million and P9.9 million in 2018 and 2017, respectively. There was no outstanding balance arising from this transaction as of December 31, 2018 and 2017.

11. COSTS AND OPERATING EXPENSES BY NATURE

The components of Cost of Goods Sold, Selling and Administrative Expenses are as follows:

11.1 Cost of Goods Sold

The components of Cost of Goods Sold for the years ended December 31, 2018 and 2017 are analyzed as follows:

	Notes	2018	2017
Products for sale at beginning of year	6	**P 31,691,973**	P 57,257,087
Purchases			
Imported	10.2, 15.1	**80,868,238**	63,156,165
Local		**18,442,118**	1,965,431
Free goods and samples	11.2	**(4,210,759)**	(267,543)
Write-off of inventories	6	**(6,716,656)**	(32,166,032)
Total goods available for sale		**120,074,914**	89,945,108
Products for sale at end of year	6	**(48,319,711)**	(31,691,973)
		P 71,755,203	P 58,253,135

11.2 Selling and Administrative Expenses

The other operating expenses are presented by nature below.

	Notes	2018	2017
Promotions and marketing	10.2	**P 167,228,448**	P 148,385,707
Salaries, wages and other benefits	10.3	**75,252,914**	71,260,435
Transportation and travel		**8,260,975**	6,559,296
Pallet and other charges		**7,886,570**	1,135,748
Write-off of inventories	6	**6,716,656**	32,166,032
Communication and utilities		**5,459,543**	8,338,774
Rental	15.2	**4,768,937**	3,957,470
Depreciation and amortization	7	**3,729,025**	3,973,530
Outside services		**3,173,202**	3,271,171
Provision for inventory write-down	6	**1,651,644**	1,414,124
Taxes and licenses	19(f)	**1,252,253**	528,053
Dues and membership		**958,290**	894,083
Repairs and maintenance		**699,527**	1,129,524
Insurance		**657,106**	444,901
Supplies		**158,037**	106,491
Miscellaneous		**3,124,727**	3,667,599
		P 290,977,854	P 287,232,938

These are allocated and presented in the statements of comprehensive income as follows:

	2018	2017
Selling expenses	P 253,493,929	P 232,199,507
Administrative expenses	37,483,925	55,033,431
	P 290,977,854	P 287,232,938

12. OTHER INCOME AND FINANCE CHARGES

This account pertains to the following:

	Notes	2018	2017
Other income:			
Reversal of refund liability		P 2,137,233	P -
Gain on sale of property and equipment	7	728,577	173,571
Interest income	4	49,394	29,519
Others		4,354,303	430,046
		P 7,269,507	P 633,136
Finance charges:			
Unrealized foreign currency losses (gains)		P 1,109,275	(P 130,291)
Bank charges		311,645	356,987
		P 1,420,920	P 226,696

Others include income from overcharges by the Company's distributor which was collected in 2018 amounting to P3.4 million.

13. TAXES

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

	2018	2017
Current tax expense:		
Minimum corporate income tax (MCIT)	P 6,154,301	P 5,393,569
Final tax at 20%	9,879	5,904
	6,164,180	5,399,473
Deferred tax expense (income) relating to origination and reversal of temporary differences	685,695	(556,026)
	P 6,849,875	P 4,843,447

The reconciliation of tax on pretax income computed at the applicable statutory rates to the tax expense reported in profit or loss is presented below.

	2018	2017
Tax on pretax income at 30%	P 3,956,777	P 4,461,207
Adjustment for income subjected to lower tax rates	(4,939)	(2,952)
Tax effects of:		
Nondeductible reimbursable charges	2,968,826	385,192
Nontaxable income	(70,789)	-
	P 6,849,875	P 4,843,447

The components of the Company's net deferred tax assets are as follows:

	Statements of Financial Position		Statements of Comprehensive Income	
	2018	2017	2018	2017
Deferred tax assets:				
MCIT	P 8,099,560	5,393,569	P 2,705,991	P 5,393,569
Accrued expenses	7,917,358	3,588,000	4,329,358	3,588,000
Inventory losses	1,615,351	1,119,858	495,493	424,237
Refund liability	501,927	-	(139,243)	-
Unrealized foreign exchange loss (gains) – net	332,783	(39,087)	371,870	(845,572)
Deferred rental	161,971	161,971	-	-
Net operating loss carry-over (NOLCO)	-	8,299,630	(8,299,630)	(7,415,781)
	18,628,950	18,523,941	(536,161)	1,144,453
Deferred tax liabilities:				
Capitalized custom duties	(2,376,913)	(2,246,955)	(129,958)	(522,095)
Advance rentals and security deposits	(843,702)	(824,126)	(19,576)	(66,332)
Deferred tax assets – net	P 15,408,335	P 15,452,860		
Deferred tax income (expense) – net			(P 685,695)	P 556,026

The details of the Company's NOLCO are as follows:

Year	Amount	Applied	Expired	Remaining Balance
2015	P 48,269,245	(P 48,269,245)	P -	P -

In 2018 and 2017, the Company is liable for MCIT, which was computed at 2% of gross income as defined under the tax regulations, as there was no income subject to the regular corporate income tax (RCIT) in those periods. The MCIT can be applied as deduction from the Company's future regular income tax payable within three years from the year the MCIT was paid. The details of the Company's MCIT are as follows:

Year	Amount	Applied	Expired	Remaining Balance	Valid Until
2018	P 2,705,991	P -	P -	P 2,705,991	2021
2017	5,393,569	-	-	5,393,569	2020
	P 8,099,560	P -	P -	P 8,099,560	

In 2018 and 2017, the Company claimed itemized deductions for income tax purposes.

14. EQUITY

14.1 Capital Stock and Additional Paid In Capital

In 2018 and 2017, the Company's capital stock consists of:

	Shares	Amount
Authorized:		
Common shares - P10 par value	30,332,428	P 303,324,280
Preferred shares – P10 par value	3,932,720	P 39,327,200
Issued and outstanding:		
Common shares	24,965,120	P 249,651,200
Preferred shares	983,180	9,831,800
Capital stock at end of year	25,948,300	P 259,483,000

The Company's preferred shares are non-cumulative and redeemable at the sole option of the Company, either wholly or partially. At the end of 5 years and before 20 years from the date of issue, the holders of preferred shares shall have a right to have all or part of their shareholding to be converted to common shares. The redemption and conversion shall be made on such terms and conditions as may be determined by the Company's BOD and provided in the corresponding enabling BOD resolutions at such time.

As of December 31, 2018 and 2017, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

14.2 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 stockholders.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods as at December 31, 2018 and 2017 are summarized as follows:

	2018	2017
Total liabilities	**P 82,026,902**	P 48,906,311
Total equity	**239,160,838**	234,317,518
Total liabilities-to-total equity ratio	**0.34 : 1.00**	0.21 : 1.00

As at December 31, 2018 and 2017, the Company is not subject to any externally imposed capital requirements.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial 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 that will be paid to shareholders, issue new shares or sell assets.

15. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

15.1 Distribution Agreement and Sales and Purchase Agreement

The Company entered into an exclusive distributorship agreement with a local company (the distributor) for the handling, delivery and distribution of its products within the Philippines effective February 2015. The agreement is in effect until cancellation or termination of the agreement by both parties. Under this agreement, the distributor shall purchase goods from the Company or from any other suppliers which the Company may designate in writing and sell these goods under its own name for its own account. On the other hand, the Company shall replenish stocks with the distributor as the need for stocks arises.

In 2018 and 2017, the Company entered into sales and purchase agreement with local companies effective August 2018 and 2017, respectively. The agreements are effective for the period of three years and five years, respectively, unless cancelled or terminated by either parties. Under this agreement, the counterparties shall purchase from and sell goods to the Company or from any other suppliers which the Company may designate in writing and sell these goods under its own name for its own account. On the other hand, the Company shall supply to and purchase goods from the counterparties as the demand arises.

The total sales to these local companies are presented as part of Sale of Goods in the statements of comprehensive income. Also, the total purchases from local companies are presented as part of Cost of Goods Sold in the statements of comprehensive income (see Note 11.1). The outstanding receivable from the local companies as of December 31, 2018 and 2017 is shown as part of trade receivables under Trade and Other Receivables account in the statements of financial position (see Note 5). Also, the outstanding payable to local companies for the purchased goods as of December 31, 2018 and 2017 is shown as part of Trade payables under Trade and Other Payables account in the statements of financial position (see Note 9).

15.2 Operating Lease – Company as Lessee

The Company leases its office space under an operating lease agreement for a period of five years up to July 30, 2018. Under the agreement, the rental rate shall be increased by 5% beginning on the second year. The lease contract is renewable upon mutual written agreement of both parties. Advance rental deposit (which will be applied as rental payments during the last term of the lease) and Security deposit relating to lease agreement is presented as part of Other Non-current Assets account in the statements of financial position (see Note 8). The Company renewed the contract the lease agreement effective August 1, 2018.

Rental expense from the lease of the property amounted to P4.8 million and P4.0 million in 2018 and 2017, and is shown under Administrative Expenses account in the statements of comprehensive income (see Note 11.2).

The future minimum rental commitments arising from this agreement are as follows:

	2018	2017
Less than one year	P 5,936,192	P 2,554,410
Between one and five years	21,271,356	-
	P 27,207,548	P 2,554,410

15.3 Others

There are other commitments, litigations and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements. Management is of the opinion that as of the end of each reporting period, losses, if any, from these commitments and contingencies will not have a material effect on the Company's financial statements.

16. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to certain financial risks in relation to its financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial markets.

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

16.1 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 liability incurred relating to purchases from its parent company and United States (U.S.) dollar-denominated cash. Since the significant exposure to currency changes arise from transactions with its parent company, the Company manages its risk in close coordination with its parent company.

Foreign currency-denominated financial assets and financial liabilities as of December 31, 2018 and 2017, translated into U.S. dollar at the closing rate are as follows:

	2018	2017
Financial assets	P 46,605,848	P 50,719,385
Financial liabilities	(39,242,963)	(25,511,006)
Short-term exposure	P 7,362,885	P 25,208,379

If the Philippine peso had strengthened by 11.14% and 10.8% against the U.S. dollar in 2018 and 2017, income before tax in would have decreased by P0.8 million and P2.7 million, respectively. On the other hand, if the Philippine peso had weakened by the same percentages, with all other variables held constant, income before tax in 2018 and 2017 would have increased and decreased by the same amounts, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of the reporting period.

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

16.2 Credit Risk

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

The maximum credit risk exposure of financial assets is as summarized below.

	Notes	2018	2017
Cash	4	**P 91,589,852**	P 62,058,815
Trade and other receivables	5	**138,469,773**	154,099,470
Construction deposit	8	**357,625**	357,625
Security deposit	8	**1,550,808**	1,406,714
		P 231,968,058	P 217,922,624

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below and in the succeeding page.

(a) Cash

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

(b) Trade and other receivables

In respect to trade and other receivables, the Company is exposed to a significant credit risk exposure to its distributors which account to 100% of the Company's sales. Ultimately, however, the Company is significantly exposed to credit risk to a counterparty transacting with one of their distributors which accounts for 99% and 71% as of December 31, 2018 and 2017, respectively, of the total credit risk exposure on trade and other receivables. Despite the significant concentration of risk, the Company still considers the credit risk for trade and other receivables negligible since the receivable in question does not have a history of default.

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables.

The expected loss rates of receivables (other than receivables from government hospitals) are based on the monthly aging of receivables of the Company over a period of 36 months before December 31, 2018 or January 1, 2018, respectively. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the inflation rates to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss rates for receivables from government hospitals are based on credit rating of the Philippines from Standard & Poors.

The Company did not recognize allowance for credit losses in 2018 and 2017 since the amounts involved are assessed to be immaterial.

(c) Construction and security deposit

In respect of construction and security deposit, the Company's financial assets are due from the Company's lessor upon whom the construction and security deposit are to be collected. Based on the financial condition of the lessor, management considers the credit quality of these receivables to be good.

16.3 Liquidity Risk

The Company manages liquidity needs by monitoring cash flows due in a day-to-day business. Liquidity needs are monitored in various time bands aligned to expected maturity or settlement date of liabilities.

The Company maintains cash to meet liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally supported by ability to obtain advances from a related party.

As at December 31, 2018 and 2017, the Company's financial liabilities with contractual maturities of less than one year pertain to trade and other payables amounting to P78.7 million and P45.4 million, respectively (see Note 9).

17. CATEGORIES, OFFSETTING, AND FAIR VALUE MEASUREMENT AND DISCLOSURES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

17.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position, at amortized cost, as of December 31 are shown below.

	2018		2017	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets				
Financial assets at amortized cost:				
Cash	P 91,589,852	P 91,589,852	P 62,058,815	P 62,058,815
Trade and other receivables	138,469,773	138,469,773	154,099,470	154,099,470
Construction deposit	357,625	357,625	357,625	357,625
Security deposit	1,550,808	1,550,808	1,406,714	1,406,714
	P 231,968,058	P 231,968,058	P 217,922,624	P 217,922,624
Financial Liabilities				
Trade and other payables	P 78,700,295	P 78,700,295	P 45,403,189	P 45,403,189

Management considers that the carrying amounts of these financial assets and financial liabilities approximate their fair values as of December 31, 2018 and 2017 either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

See Notes 2.3 and 2.7 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 16.

17.2 Offsetting of Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2018 and 2017 and does not have relevant offsetting arrangement. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle such amount on a net basis in the event of default on the other party through approval by the other party's BOD and stockholders or upon instruction by the parent company.

17.3 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 financial assets and financial 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.

When the Company uses a 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.

The Company has no financial instruments measured at fair value as of December 31, 2018 and 2017.

All financial instruments carried at amortized cost (see Note 17.1) as of December 31, 2018 and 2017 are classified at Level 3 in the fair value hierarchy, except for Cash which is classified at Level 1. There were no transfers between Level 1 and 3 in both years presented.

18. EVENTS AFTER THE REPORTING PERIOD

On February 20, 2019, Republic Act No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Company's financial statements:

- The Revised Corporation Code removed the 50-year maximum corporate term. Hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,

- The Revised Corporation Code removed the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deems further that other amendments and new provisions contained in the Revised Corporation Code are not material to the Company.

19. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding page is the supplementary information which is required by BIR under Revenue Regulation (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 as follows:

(a) Output VAT

In 2018, the Company reported output VAT totaling P37,558,734 on its sale of goods subject to VAT amounting to P312,989,448.

The Company's outstanding output VAT is reported as part of Trade and Other Payables account in the 2018 statement of financial position (see Note 9).

(b) Input VAT

The movements in input VAT in 2018 are summarized below.

Balance at beginning of year	P -
Services lodged under other accounts	16,709,684
Applied against output VAT	(16,709,684)
Balance at end of year	P -

(c) Taxes on Importation

Customs duties and tariff fees totaling P8,125,165 were paid in 2018 for all of the Company's imported inventories from its parent company.

(d) Excise Tax

The Company did not have any transactions in 2018 which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

DST amounting to P104,807 was paid in 2018 related to the renewal of the Company's car insurances.

(f) Taxes and Licenses

The details of taxes and licenses paid in 2018 are as follows:

Business permits	1,116,786
DST	104,807
Community tax certificate	10,500
Regulatory, registration and filing fees	8,500
Others	11,660
	P 1,252,253

(g) Withholding Taxes

The details of total withholding taxes in 2018 are shown below.

Compensation	P	9,054,354
Expanded		1,497,107
	P	**10,551,461**

There were no transactions required to be subjected to final withholding taxes during the year.

(h) Deficiency Tax Assessments and Tax Cases

As of December 31, 2018, the Company has ongoing tax assessment covering all its internal revenues for the taxable year 2016 which was settled in January 2019.