Report of Independent Certified Public Accountants to Accompany Income Tax Return

Punongbayan & Araullo
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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, 2020, on which we have rendered the attached report dated March 30, 2021.

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. 8533225, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-4 (until Oct. 7, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 30, 2021

P&A
Grant Thornton

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Report of Independent Auditors

The Board of Directors
Zydus Healthcare Philippines, Inc.
(A Wholly Owned Subsidiary of
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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, 2020 and 2019, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes 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, 2020 and 2019, 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.

- 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, 2020 required by the Bureau of Internal Revenue, as disclosed in Note 20 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. 8533225, January 4, 2021, Makati City
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 30, 2021

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
A S S E T S			
CURRENT ASSETS			
Cash	4	P 186,969,569	P 113,807,770
Trade and other receivables	5	188,043,368	177,216,528
Inventories - net	6	41,435,974	48,762,788
Other current assets	9	2,844,122	6,542,737
Total Current Assets		419,293,033	346,329,823
NON-CURRENT ASSETS			
Property and equipment - net	7	21,289,973	16,144,166
Right-of-use assets - net	8	13,963,815	19,369,162
Deferred tax assets - net	15	10,470,512	7,899,097
Other non-current assets	9	1,616,970	1,616,970
Total Non-current Assets		47,341,270	45,029,395
TOTAL ASSETS		P 466,634,303	P 391,359,218
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	P 144,596,724	P 126,697,089
Lease liabilities	8	5,143,986	4,507,951
Total Current Liabilities		149,740,710	131,205,040
NON-CURRENT LIABILITIES			
Lease liabilities	8	9,560,766	14,704,752
Retirement benefit obligation	14	8,209,668	6,221,291
Total Non-current Liabilities		17,770,434	20,926,043
Total Liabilities		167,511,144	152,131,083
EQUITY			
Capital stock	16	259,483,000	259,483,000
Additional paid-in capital		720,000	720,000
Remeasurement of retirement benefit obligation	14	(3,300,626)	(3,381,734)
Retained earnings (Deficit)		42,220,785	(17,593,131)
Total Equity		299,123,159	239,228,135
TOTAL LIABILITIES AND EQUITY		P 466,634,303	P 391,359,218

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, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
SALE OF GOODS	2, 17	P 540,798,271	P 492,475,873
COST OF GOODS SOLD	12, 17	161,152,463	114,969,663
GROSS PROFIT		379,645,808	377,506,210
OTHER OPERATING EXPENSES	12		
Selling expenses		245,802,949	299,217,409
Administrative expenses		47,471,010	48,160,441
		293,273,959	347,377,850
OPERATING INCOME		86,371,849	30,128,360
OTHER INCOME (CHARGES)			
Other income	13	5,956,609	6,834,150
Reimbursable charges	11	(3,635,738)	(20,593,390)
Finance charges	13, 14	(1,688,110)	(1,808,535)
		632,761	(15,567,775)
INCOME BEFORE TAX		87,004,610	14,560,585
TAX EXPENSE	15	27,190,694	11,111,554
NET PROFIT		59,813,916	3,449,031
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit and loss			
Remeasurement gain (loss) on retirement benefit obligation	14	115,869	(4,831,049)
Tax income (expense) on remeasurement	15	(34,761)	1,449,315
		81,108	(3,381,734)
TOTAL COMPREHENSIVE INCOME		P 59,895,024	P 67,297

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Capital Stock (see Note 16)	Additional Paid-in Capital	Remeasurement of Retirement Benefit Obligation (see Note 14)	Retained Earnings (Deficit)	Equity
Balance at January 1, 2020	**P 259,483,000**	**P 720,000**	**(P 3,381,734)**	**(P 17,593,131)**	**P 239,228,135**
Total comprehensive income for the year	**-**	**-**	**81,108**	**59,813,916**	**59,895,024**
Balance at December 31, 2020	**P 259,483,000**	**P 720,000**	**(P 3,300,626)**	**P 42,220,785**	**P 299,123,159**
Balance at January 1, 2019	P 259,483,000	P 720,000	P -	(P 21,042,162)	P 239,160,838
Total comprehensive income (loss) for the year	-	-	(3,381,734)	3,449,031	67,297
Balance at December 31, 2019	P 259,483,000	P 720,000	(P 3,381,734)	(P 17,593,131)	P 239,228,135

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, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 87,004,610	P 14,560,585
Adjustments for:			
Depreciation and amortization	7, 8	11,258,300	10,493,607
Unrealized foreign currency gains	13	(3,866,094)	(1,369,094)
Interest expense	13	1,557,596	1,553,892
Loss (reversal) on inventory write-down	6, 13	766,264	(2,429,019)
Gain on sale of property and equipment computer equipment	13	(220,000)	(853,872)
Interest income	13	(167,798)	(70,861)
Operating profit before working capital changes		96,332,878	21,885,238
Increase in trade and other receivables		(10,826,840)	(35,474,749)
Decrease in inventories		6,560,550	1,990,417
Increase in other current assets		(5,219,878)	(1,456,742)
Decrease in other non-current assets		-	1,570,323
Increase in trade and other payables		5,994,825	44,670,187
Increase in retirement benefit obligation		1,796,292	1,390,242
Cash generated from operations		94,637,827	34,574,916
Cash paid for income taxes		(8,973,567)	(14,172)
Net Cash From Operating Activities		85,664,260	34,560,744
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	7	(10,998,760)	(9,173,412)
Proceeds from sale of property and equipment	7	220,000	874,043
Interest received	13	167,798	70,861
Net Cash Used in Investing Activities		(10,610,962)	(8,228,508)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liabilities	8	(4,507,951)	(3,929,520)
Interest paid	13	(1,249,642)	(1,553,892)
Cash Used in Financing Activities		(5,757,593)	(5,483,412)
Effect of Foreign Exchange Rate Changes on Cash	13	3,866,094	1,369,094
NET INCREASE IN CASH		73,161,799	22,217,918
CASH AT BEGINNING OF YEAR		113,807,770	91,589,852
CASH AT END OF YEAR		P 186,969,569	P 113,807,770

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES, INC.
(A Wholly Owned Subsidiary of Cadila Healthcare Limited, India)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1 GENERAL INFORMATION

1.1 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 Corporate Park, Sarkhej-Gandhinagar Highway, Near Vaishnodevi Circle, Ahmedabad - 382481.

1.2 Impact of COVID-19 Pandemic on Company's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

The following are the impact of the COVID-19 pandemic to the Company's business:

- suspension of fieldwork of medical representatives and full work-from-home scheme implemented from March 2020 to June 2020. However, despite the suspension of fieldwork, the Company's sales month-on-month achievement were favorable;
- reduction in selling and other marketing expenses due to minimal marketing activities conducted; and,
- additional administrative expenses were incurred to ensure health and safety of its employees such as the frequent disinfection of the office and purchase of additional health insurance.

In response to this matter, the Company has taken the following actions:

- utilized different digital platforms to reach out to the doctors and target market to generate sales;
- conducted fieldwork at least twice a week starting July 2020 by the Company's medical representatives;
- negotiated for longer payment terms from suppliers; and,
- monitored cash flows.

Based on the above actions and measures taken by management in response to the pandemic, it projects that the Company would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Company's Board of Directors (BOD) on March 30, 2021.

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 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 2020 that are Relevant to the Company

The Company adopted the following revised conceptual framework and amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

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

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

The application of the revised conceptual framework had no significant impact on the Company's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material.* The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform.* The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Company's financial statements.

(b) Effective in 2020 that is not Relevant to the Company

Among the amendments to existing standards which are mandatorily effective for annual periods beginning on or after January 1, 2020, only the amendment to PFRS 3, *Business Combinations – Definition of a Business*, is not relevant the Company.

(c) Effective Subsequent to 2020 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2020, 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 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:

a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 percent' Test for Derecognition of Liabilities* are relevant to the Company. The amendments clarify that the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) 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.

(i) Classification, Measurement and Reclassification of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, fair value through other comprehensive income, and financial assets at fair value through profit and loss (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 below.

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 solely payments of principal and interest 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 allowance for expected credit loss (ECL).

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.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

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.

(ii) Impairment of Financial Assets

At the end of the reporting period, the Company assesses its 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 ECL, 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 ECL, 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* – It is an estimate of likelihood of counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.

- *Loss given default* – It 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, including the realization of any collateral or effect of any credit enhancement.

- *Exposure at default* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

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

(iii) 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.

(b) Financial Liabilities

Financial liabilities, which include Trade and Other Payables (except 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.

(c) 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.

2.4 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 the related inventories are sold.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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 (see Note 2.11).

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 *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.

2.8 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:

(a) identifying the contract with a customer;
(b) identifying the performance obligation;
(c) determining the transaction price;
(d) allocating the transaction price to the performance obligations; and,
(e) recognizing revenue when/as performance obligations are satisfied.

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

(a) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
(b) each party's rights regarding the goods or services to be transferred or performed can be identified;
(c) the payment terms for the goods or services to be transferred or performed can be identified;
(d) 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,
(e) 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:

(a) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
(b) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
(c) 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 [see Note 3.1(b)].

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, *Revenue from Contracts with Customers*, with Customers 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.

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

2.9 Leases – Company as a Lessee

For any new contracts entered into, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;

- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.11).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

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

2.10 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 statement of comprehensive income..

2.11 Impairment of Non-financial Assets

The Company's property and equipment, right-of-use assets 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.

2.12 Employee Benefits

The Company provides employment benefits to employees through a defined benefit plan, as well as other benefits which are discussed as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is non-funded, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses from experience adjustments and changes in actuarial assumptions, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income or loss in the period in which they arise. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment. Interest expense is reported as part of Other Income (Charges) account under Finance Charges in the statement of comprehensive income.

(b) 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.

(c) 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 as part of Accrued expenses under 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.

2.13 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.

2.14 Related Party Transactions and Relationships

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

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

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

2.15 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.

Remeasurement of retirement benefit obligation consist of actuarial gains and losses on retirement benefit obligation.

Retained earnings (deficit) includes all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

2.16 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 Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For lease of office and parking space, the factors that are normally the most relevant is if there are significant penalties should the Company pre-terminate the contract, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The renewal option for the lease of the office and parking space was not included as part of the lease term because the lease term states that this shall be coterminous and subject to the terms and conditions mutually agreed by both parties.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

(b) Determination of Timing of Satisfaction of Performance Obligations

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.

(c) Determination of Transaction Price

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(c).

(d) Determination of ECL on Trade and Other Receivables

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 18.2.

(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 2.7 and disclosures on relevant contingencies are presented in Note 17.

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 below and in the succeeding pages.

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 18.2.

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

The Company's contract of sale has variable consideration which is the right of return given to the customers within a specified period. Given the large number of contracts of the same characteristics, the Company considered the expected value method under the provisions of PFRS 15 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, 2020 and 2019 is presented as part of Trade and Other Payables account in the statements of financial position.

(d) 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.

(e) Estimation of Useful Lives of Property and Equipment and Right-of-use Assets

The Company estimates the useful lives of property and equipment and right-of-use assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and right-of-use assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and right-of-use assets are analyzed in Notes 7 and 8, respectively. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) 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 2.11). 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, right-of-use of asset and other non-financial assets in 2020 and 2019 based on management's evaluation (see Notes 7, 8 and 9).

(g) 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, 2020 and 2019 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 15.

(h) Valuation of Post-employment Defined Benefit Obligation

The determination of the Company's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

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

4 CASH

This account is composed of the following:

	2020	2019
Cash on hand	**P 2,725,750**	P 2,952,750
Cash in banks	**184,243,819**	110,855,020
	P 186,969,569	P 113,807,770

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.

Interest income earned from the Company's cash in bank amounted to P0.17 million and P0.07 million in 2020 and 2019, respectively, and is presented as part of Other Income (Charges) in the statements of comprehensive income (see Note 13). The related foreign currency gain in 2020 and 2019 is also recorded as part of Other Income (Charges) in the statements of comprehensive income (see Note 13).

5 TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	2020	2019
Trade receivables	17.1	**P 184,998,127**	P 173,199,226
Employee advances		**3,045,241**	4,017,302
		P 188,043,368	P 177,216,528

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 impairment. However, no allowance for credit losses was recognized as of December 31, 2020 and 2019. This assessment is undertaken each reporting period based on the Company's established ECL model as fully disclosed in Note 18.2.

6 INVENTORIES

Inventories as of December 31, 2020 and 2019 measured at cost and at NRV are summarized below.

	Note	2020	2019
At Cost:			
Products for sale	12.1	**P 41,435,974**	P 48,762,788
At NRV:			
Products and promotional samples		**3,721,749**	2,955,485
Allowance for write-down to NRV		**(3,721,749)**	(2,955,485)
		-	-
		P 41,435,974	P 48,762,788

A reconciliation of the allowance for inventory write-down at the beginning and end of 2020 and 2019 is shown below.

	Notes	2020	2019
Balance at beginning of year		**P 2,955,485**	P 5,384,504
Losses on inventory write-down	12.2	**766,264**	-
Reversal of inventory write-down	13	**-**	(2,429,019)
Balance at end of year		**P 3,721,749**	P 2,955,485

Losses on inventory write-down is presented as part of Administrative Expenses account in the 2020 statement of comprehensive income. In 2019, the initial write-down estimated loss is higher than the NRV of certain inventories, hence, inventory write-down was reversed and presented as part of Other Income account in the 2019 statement of comprehensive income. The allowance for write-down to NRV represents the costs of inventories that are expired and expiring in six months as at December 31, 2020 and 2019.

In 2020 and 2019, certain expired inventories with total cost of P13.0 million and P13.4 million, respectively, 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 under the Administrative Expenses account in the statements of comprehensive income (see Notes 12.1 and 12.2).

An analysis of the inventories charged to Cost of Goods Sold for the years ended December 31, 2020 and 2019 is presented in Note 12.1.

7 PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2020 and 2019 are as follows:

	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Computer Equipment and Software**	**Total**
December 31, 2020				
Cost	P 30,078,214	2,873,949	P 6,259,304	39,211,467
Accumulated depreciation and amortization	(11,877,411)	(1,141,993)	(4,902,090)	(17,921,494)
Net carrying amount	**P 18,200,803**	**P 1,731,956**	**P 1,357,214**	**P 21,289,973**
December 31, 2019				
Cost	P 20,907,321	P 2,663,341	P 5,074,277	P 28,644,939
Accumulated depreciation and amortization	(7,476,518)	(510,012)	(4,514,243)	(12,500,773)
Net carrying amount	P 13,430,803	P 2,153,329	P 560,034	P 16,144,166

	Transportation Equipment	Office Furniture, Fixtures and Equipment	Computer Equipment and Software	Total
January 1, 2019				
Cost	P 16,774,333	P 427,339	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 1,164,216	P 12,079,185

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2020 and 2019 is shown below.

	Transportation Equipment	Office Furniture, Fixtures and Equipment	Computer Equipment and Software	Total
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 13,430,803	P 2,153,329	P 560,034	P 16,144,166
Additions	9,509,821	210,608	1,278,331	10,998,760
Depreciation and amortization charges for the year	(4,739,821)	(631,981)	(481,151)	(5,852,953)
Balance at December 31, 2020, net of accumulated depreciation and amortization	**P 18,200,803**	**P 1,731,956**	**P 1,357,214**	**P 21,289,973**
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 10,562,709	P 352,260	P 1,164,216	P 12,079,185
Additions	6,534,822	2,236,002	402,588	9,173,412
Disposals	(13,036)	-	(7,135)	(20,171)
Depreciation and amortization charges for the year	(3,653,692)	(434,933)	(999,635)	(5,088,260)
Balance at December 31, 2019, net of accumulated depreciation and amortization	P 13,430,803	P 2,153,329	P 560,034	P 16,144,166

The Company recognized a gain on sale of transportation equipment amounting to P0.19 million and P0.7 million in 2020 and 2019, respectively, which is presented as part of Other Income account in the statements of comprehensive income (see Note 13).

The Company also recognized a gain on sale of computer equipment amounting to P0.03 million and P0.2 million in 2020 and 2019, respectively, which is presented as part of Other Income account in the statements of comprehensive income (see Note 13).

As of December 31, 2020 and 2019, the cost of the Company's fully-depreciated property and equipment that are still in use amounts to P4.8 million and P4.2 million, respectively.

8 LEASES

The Company leases its office and parking space which is reflected in the statements of financial position as Right-of-use Assets and Lease Liabilities.

Each lease generally imposes restriction and contain termination and extension options in which the right-of-use asset can only be used by the Company and may only be cancelled starting the beginning of the fourth year of the lease term subject to conditions including payment of termination fee or extended for a further term upon mutual agreement of the parties. The Company must keep the properties in a good state of repair and return the properties in their original condition at the end of the lease.

The nature of the Company's leasing activities recognized in the statements of financial position is described below:

	2020	2019
Number of right-of-use assets leased:	2	2
Remaining lease term:	2.6 years	3.6 years
Number of leases with extension and termination options:	2	2

The Company's leases have no option to purchase.

8.1 Right-of-use Assets

The gross carrying amounts and accumulated amortization of the Company's right-of-use assets at the beginning and end of 2020 and 2019 are as follows:

	Office	**Parking**	**Total**
December 31, 2020			
Cost	P 24,425,827	P 348,682	P 24,774,509
Accumulated amortization			
Balance at beginning of year	5,329,271	76,076	5,405,347
Depreciation for the year	5,329,271	76,076	5,405,347
Balance at end of year	10,658,542	152,152	10,810,694
Net carrying amount	**P 13,767,285**	**P 196,530**	**P 13,963,815**
December 31, 2019			
Cost – Effect of adoption of PFRS 16	P 24,425,827	P 348,682	P 24,774,509
Accumulated amortization			
Balance at beginning of year	-	-	-
Depreciation for the year	5,329,271	76,076	5,405,347
Balance at end of year	5,329,271	76,076	5,405,347
Net carrying amount	P 19,096,556	P 272,606	P 19,369,162

8.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position as follows:

	2020	2019
Current	**P 5,143,986**	P 4,507,951
Non-current	**9,560,766**	14,704,752
	P 14,704,752	P 19,212,703

Additional information on the lease liabilities and amounts in respect of possible future lease termination options not recognized as a liability are as follows:

	Office	**Parking**	**Total**
December 31, 2020			
Lease liabilities	P 14,497,794	P 206,958	P 14,704,752
Lease termination options not recognized as a liability	1,862,419	22,973	1,885,392
Historical rate of exercise of termination options	0%	0%	
December 31, 2019			
Lease liabilities	P 18,942,299	P 270,404	P 19,212,703
Lease termination options not recognized as a liability	1,862,419	22,973	1,885,392
Historical rate of exercise of termination options	0%	0%	

The use of extension and termination options gives the Company added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Company's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

As at December 31, 2020 and 2019, the Company has no other lease commitments. The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31 is summarized below:

	Within 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**Total**
December 31, 2020					
Lease payments	P 6,045,485	P 6,347,764	P 3,808,666	P -	P 16,201,915
Finance charges	(901,499)	(505,116)	(90,548)	-	(1,497,163)
Net present value	**P 5,143,986**	**P 5,842,648**	**P 3,718,118**	**P -**	**P 14,704,752**
December 31, 2019					
Lease payments	P 5,757,593	P 6,045,485	P 6,347,764	P 3,808,666	P 21,959,508
Finance charges	(1,249,642)	(901,499)	(505,116)	(90,548)	(2,746,805)
Net present value	P 4,507,951	P 5,143,986	P 5,842,648	P 3,718,118	P 19,212,703

8.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P5.8 million and P5.5 million in 2020 and 2019, respectively. Interest expense in relation to lease liabilities amounted to P1.2 million and P1.6 million in 2020 and 2019, respectively, and is presented as part of Finance Charges under Other Income (Charges) in the statements of comprehensive income (see Note 13).

9 OTHER ASSETS

This account is composed of the following:

	2020	2019
Current:		
Deferred input VAT	**P 1,664,580**	P 1,224,347
Prepaid expenses	**821,917**	1,462,590
Construction deposit	**357,625**	357,625
Creditable withholding taxes	**-**	3,498,175
	P 2,844,122	P 6,542,737
Non-current:		
Security deposit	**P 1,616,970**	P 1,616,970

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.

10 TRADE AND OTHER PAYABLES

This account is composed of the following:

	Notes	2020	2019
Trade payables:			
Related party	11.1, 11.2	**P 51,743,356**	P 69,896,817
Third parties	17.1	**18,724,244**	18,068,981
Accrued expenses		**57,282,563**	35,081,876
Income tax payable		**11,904,810**	-
Refund liability		**1,981,645**	1,575,323
Output VAT	20.1(a)	**682,410**	256,382
Others		**2,277,696**	1,817,710
		P 144,596,724	P 126,697,089

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

11 RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, key management personnel and others as described in Note 2.14. Its transactions with related parties are presented below.

	Notes	**2020** Amount of Transaction	**2020** Outstanding Balance	2019 Amount of Transaction	2019 Outstanding Balance
Parent Company:					
Reimbursable charges	11.1	**P 3,635,738**	**P -**	P 20,593,390	P 26,131,083
Purchase of goods	10, 11.2 12.1	**140,121,158**	**51,743,356**	106,615,656	43,765,734
Key Management Personnel –					
Compensation	11.3	**9,217,437**	**-**	8,575,058	-

11.1 Reimbursable 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. Additionally, 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. In 2020 and 2019, the Company was able to surpass the threshold and recognized Reimbursable Charges presented under Other Income (Charges) section in the statements of comprehensive income. The outstanding payable as of December 31, 2019 amounted to P26.1 million and is presented as part of Trade payables – related party under Trade and Other Payables account in the statement of financial position (see Note 10). There is no outstanding payable as of December 31, 2020. The payable arising from this transaction is noninterest-bearing, unsecured and payable in cash upon demand.

11.2 Purchase of Goods

In the ordinary course of business, the Company purchases goods from the parent company. The total purchases from the parent company are presented as Purchases – Imported under Cost of Goods Sold and Promotions and marketing (for promotional and free goods) under Selling Expenses (see Notes 12.1 and 12.2). The outstanding payable from these transactions is presented as Trade payables – related party under Trade and Other Payables account in the statements of financial position (see Note 10). Such payable is unsecured, noninterest-bearing and generally settled in cash within three to six months.

11.3 Key Management Personnel Compensation

The total compensation (including salaries and short-term benefits) of the Company's key management personnel amounted to P9.2 million and P8.6 million in 2020 and 2019, respectively. There was no outstanding balance arising from this transaction as of December 31, 2020 and 2019.

12 COSTS AND OPERATING EXPENSES BY NATURE

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

12.1 Cost of Goods Sold

The components of Cost of Goods Sold for the years ended December 31, 2020 and 2019 are analyzed as follows:

	Notes	2020	2019
Products for sale at beginning of year	6	**P 48,762,788**	P 48,319,711
Purchases:			
Imported	11.2	**140,121,158**	106,525,656
Local	17.1	**24,179,150**	23,462,054
Custom duties		**11,453,407**	10,254,762
Sample goods		**(8,145,044)**	(13,812,714)
Reversal (losses) on inventory write-down	6, 13	**(766,264)**	2,429,019
Write-off of inventories	6	**(13,016,758)**	(13,446,037)
Total goods available for sale		**202,588,437**	163,732,451
Products for sale at end of year	6	**(41,435,974)**	(48,762,788)
		P 161,152,463	P 114,969,663

12.2 Selling and Administrative Expenses

The other operating expenses are presented by nature below.

	Notes	2020	2019
Promotions and marketing	11.2	**P 144,178,902**	P 201,775,332
Salaries, wages and other benefits	11.3, 14.1	**95,761,847**	88,410,437
Write-off of inventories	6	**13,016,758**	13,446,037
Depreciation and amortization	7, 8	**11,258,300**	10,493,607
Transportation and travel		**9,353,624**	9,005,736
Pallet and other charges		**5,347,628**	7,198,419
Communication and utilities		**5,141,238**	4,268,178
Outside services		**2,982,793**	4,897,099
Taxes and licenses	20.1(f)	**1,654,348**	1,306,649
Dues and membership		**1,085,215**	1,033,525
Losses on inventory write-down	6	**766,264**	-
Repairs and maintenance		**694,354**	703,449
Insurance		**294,643**	1,464,050
Supplies		**34,301**	66,254
Miscellaneous		**1,703,744**	3,309,078
		P 293,273,959	P 347,377,850

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

	2020	2019
Selling expenses	**P 245,802,949**	P 299,217,409
Administrative expenses	**47,471,010**	48,160,441
	P 293,273,959	P 347,377,850

13 OTHER INCOME AND FINANCE CHARGES

This account pertains to the following:

	Notes	2020	2019
Other income:			
Unrealized foreign currency gains	4	**P 3,866,094**	P 1,369,094
Reversal of refund liability		**1,575,323**	1,673,092
Gain on sale of property and equipment	7	**220,000**	853,872
Interest income	4	**167,798**	70,861
Reversal of inventory write-down	6	**-**	2,429,019
Others		**127,394**	438,212
		P 5,956,609	P 6,834,150
Finance charges:			
Interest expense	8.3, 14.2	**P 1,557,596**	P 1,553,892
Bank charges		**130,514**	254,643
		P 1,688,110	P 1,808,535

14 EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	Note	2020	2019
Short-term employee benefits		**P 93,965,555**	P 87,020,195
Post-employment defined benefit		**1,796,292**	1,390,242
	12.2	**P 95,761,847**	P 88,410,437

14.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Company maintains an unfunded, noncontributory post-employment benefit plan. The post-employment plan covers all regular full-time employees. The normal retirement age is 60 with a minimum of 5 years of credited service. Normal retirement benefit is an amount equivalent to one-half month salary plus one-twelfth of the 13th month pay and cash equivalent of not more than five days of service incentive leaves for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations will be made annually to update the retirement benefit costs. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2020 and 2019.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	2020	2019
Balance at beginning of year	**P 6,221,291**	P -
Current service cost	**1,796,292**	1,390,242
Interest cost	**307,954**	-
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(758,247)**	-
Experience adjustments	**642,378**	-
Changes in demographic assumptions	**-**	4,831,049
Balance at end of year	**P 8,209,668**	P 6,221,291

The amounts of post-employment benefit expense recognized in the statements of comprehensive income are as follows:

	2020	2019
Reported in profit or loss:		
Current service cost	**P 1,796,292**	P 1,390,242
Interest cost	**307,954**	-
	P 2,104,246	P 1,390,242
Reported in other comprehensive income (loss):		
Actuarial gains (losses) arising from:		
Changes in financial assumption	**P 758,247**	P -
Experience adjustments	**(642,378)**	-
Changes in demographic assumptions	**-**	(4,831,049)
	P 115,869	(P 4,831,049)

Current service cost is presented as part of Salaries, wages and other benefits expense under Administrative Expenses in the statements of comprehensive income (see Note 12.2). Interest cost is presented as part of Interest expense under Finance Charges in the statements of comprehensive income (see Note 13).

Amount recognized in other comprehensive income was included within item that will not be reclassified subsequently to profit or loss.

In determining the amount of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2020	2019
Discount rates	**3.60%**	4.95%
Expected rate of salary increases	**5.00%**	7.00%

Assumptions regarding the future mortality are based on published statistics and mortality tables. The valuation results are based on the employee data as of the valuation dates as provided by the Company to the actuary. The discount rate assumption is based on the BVAL rate as of December 31, 2020 and 2019 considering the average year of remaining working life of the employees. The average remaining working life of employees retiring at the age of 60 is 25.1 years and 25.3 years as of December 31, 2020 and 2019, respectively.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, the Company has no plan assets that will offset decrease in the interest rate.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) Sensitivity Analysis

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

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2020			
Discount rate	**+/-100 bps**	**(P 1,086,838)**	**P 1,285,357**
Salary increase rate	**+/-100 bps**	**1,249,807**	**(1,082,385)**
December 31, 2019			
Discount rate	+/-100 bps	(P 788,284)	P 935,287
Salary increase rate	+/-100 bps	902,315	(779,642)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the post-employment benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting sensitivity analysis, the present value of the post-employment benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the post-employment benefit obligation recognized in the statements of financial position.

(ii) Funding Arrangements and Expected Contributions

The plan is unfunded based on the actuarial valuation as of December 31, 2020 and 2019, therefore, benefits claims under the plan are paid directly by the Company when they become due.

The maturity profile of undiscounted expected benefit payments from the are as follows:

	2020	2019
More than one year to 5 years	**P -**	P 2,124,023
More than five years to 10 years	**3,530,416**	1,099,152
	P 3,530,416	P 3,223,175

The weighted average duration of the defined benefit obligation is 17 years at the end of the reporting period.

As of December 31, 2020 and 2019, the Company has not yet determined how much and when to fund the post-employment defined benefit plan.

15 TAXES

15.1 Current and Deferred Taxes

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

	2020	2019
Reported in profit or loss		
Current tax expense:		
Regular corporate income tax (RCIT)	**P 29,763,310**	P 10,238,388
Application of minimum corporate income tax (MCIT)	**-**	(8,099,559)
	29,763,310	2,138,829
Final tax at 20%	**33,560**	14,172
	29,796,870	2,153,001
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(2,606,176)**	8,958,553
	P 27,190,694	P 11,111,554
Reported in other comprehensive income (loss)		
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 34,761**	(P 1,449,315)

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.

	2020	2019
Tax on pretax income at 30%	**P 26,101,383**	P 4,368,176
Adjustment for income subjected to lower tax rates	**(16,779)**	(7,086)
Tax effects of:		
Nondeductible reimbursable charges and other expenses	**1,106,090**	6,788,108
Nontaxable income	**-**	(37,644)
	P 27,190,694	P 11,111,554

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

	Statements of Financial Position		**Statements of Comprehensive Income**			
			Profit or Loss		**Other Comprehensive Income**	
	2020	2019	**2020**	2019	**2020**	2019
Deferred tax assets:						
Accrued expenses	**P 9,680,762**	P 7,839,923	**P 1,840,839**	(P 77,435)	**P -**	P -
Lease liability	**4,411,426**	5,763,811	**(1,352,385)**	(1,178,856)	**-**	-
Retirement benefit obligation	**2,462,900**	1,866,387	**631,274**	417,072	**(34,761)**	1,449,315
Inventory losses	**1,116,525**	886,646	**229,879**	(728,705)	**-**	-
Refund liability	**594,494**	472,597	**121,897**	(29,330)	**-**	-
MCIT	**-**	-	**-**	(8,099,560)	**-**	-
Deferred rental	**-**	-	**-**	(161,971)	**-**	-
Forwarded	**P 18,266,107**	P 16,829,364	**P 1,471,504**	(P 9,858,785)	**(P 34,761)**	P 1,449,315

	Statements of Financial Position 2020	Statements of Financial Position 2019	Statements of Comprehensive Income – Profit or Loss 2020	Statements of Comprehensive Income – Profit or Loss 2019	Statements of Comprehensive Income – Other Comprehensive Income 2020	Statements of Comprehensive Income – Other Comprehensive Income 2019
Carried forward	**P 18,266,107**	P 16,829,364	**P 1,471,504**	(P 9,858,785)	**(P 34,761)**	P 1,449,315
Deferred tax liabilities:						
Right-of-use assets	**(4,189,145)**	(5,810,749)	**1,621,604**	1,131,918	**-**	-
Capitalized custom duties	**(2,446,622)**	(2,708,790)	**262,168**	(331,877)	**-**	-
Unrealized foreign exchange gains	**(1,159,828)**	(410,728)	**(749,100)**	(743,511)	**-**	-
Advance rentals and security deposits	**-**	-	**-**	843,702	**-**	-
	(7,795,595)	(8,930,267)	**1,134,672**	900,232	**-**	-
Deferred tax assets – net	**P 10,470,512**	P 7,899,097				
Deferred tax income (expense) – net			**P 2,606,176**	(P 8,958,553)	**(P 34,761)**	P 1,449,315

The Company is subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations before the enactment of RA No. 11534, *Corporate Recovery and Tax Incentives for Enterprises Act (CREATE Law),* or to RCIT, whichever is higher. No MCIT was reported in 2020 and 2019 as the RCIT was higher than MCIT in both years.

In 2020 and 2019, the Company claimed itemized deductions for income tax purposes.

15.2 Enactment of CREATE Law

On March 26, 2021, CREATE Law was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Law that are relevant to the Company:

a. regular corporate income tax rate is decreased from 30% to 25% starting July 1, 2020;
b. minimum corporate income tax rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
c. the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
d. the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Law was signed after the end of the current reporting period, the Company determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Company's financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Company used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable (or asset, in case of overpayment), as presented in the 2020 annual income tax return (ITR) of the Company, would be lower than the amount presented in the 2020 financial statements. Presented below is the reconciliation of the impact of the application of CREATE Law between the Company's 2020 financial statements and 2020 annual ITR.

	Amounts per 2020 Financial Statements	Impact of CREATE Act	Amount per 2020 ITR
RCIT	P 29,763,310	(P 2,480,276)	P 27,283,034
Income tax payable	11,904,810	(2,480,276)	9,424,534

In addition, the recognized deferred tax assets as of December 31, 2020 would be remeasured to 25% in the 2021 financial statements. This will result in a decline in the recognized deferred tax asset in 2020 by P434,363 and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income as provided in the applicable financial reporting standard.

16 EQUITY

16.1 *Capital Stock*

In 2020 and 2019, 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, 2020 and 2019, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

16.2 *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, 2020 and 2019 are summarized in the below:

	2020	2019
Total liabilities	**P 167,511,144**	P 152,131,083
Total equity	**299,123,159**	239,228,135
Total liabilities-to-total equity ratio	**0.56 : 1.00**	0.64 : 1.00

As at December 31, 2020 and 2019, 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.

17 COMMITMENTS AND CONTINGENCIES

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

17.1 *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 12.1). The outstanding receivable from the local companies as of December 31, 2020 and 2019 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, 2020 and 2019 is shown as part of Trade payables – third parties under Trade and Other Payables account in the statements of financial position (see Note 10).

17.2 *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.

18 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 foreign currency 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.

18.1 *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, 2020 and 2019, translated into U.S. dollar at the closing rate are as follows:

	2020	2019
Financial assets	**P 7,776,709**	P 9,492,658
Financial liabilities	**(51,945,222)**	(70,117,553)
Short-term exposure	**(P 44,168,513)**	(P 60,624,895)

If the Philippine peso had strengthened by 9.51% and 12.93% against the U.S. dollar in 2020 and 2019, income before tax would have increased by P4.2 million and P7.8 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 2020 and 2019 would have 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.

18.2 *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	2020	2019
Cash	4	**P 186,969,569**	P 113,807,770
Trade and other receivables	5	**184,998,127**	173,199,226
Construction deposit	9	**357,625**	357,625
Security deposit	9	**1,616,970**	1,616,970
		P 373,942,291	P 286,028,841

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash 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 84% and 96% as of December 31, 2020 and 2019, 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, 2020 and 2019, 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 consumer price index and inflation rate 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 & Poor's.

The Company's trade receivable that are past due but not impaired amounted to P8.5 million and P16.8 million as of December 31, 2020 and 2019, respectively. The Company did not recognize allowance for credit losses in 2020 and 2019 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.

18.3 *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, 2020 and 2019, the Company's financial liabilities (except lease liabilities – see Note 8.2) with contractual maturities of less than one year pertain to trade and other payables amounting to P129.2 million and P126.0 million, respectively (see Note 10).

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

19.1 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 as of December 31 are shown below.

	2020		2019	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets at amortized cost:				
Cash	**P 186,969,569**	**P 186,969,569**	P 113,807,770	P 113,807,770
Trade and other receivables	**184,998,127**	**184,998,127**	173,199,226	173,199,226
Construction deposit	**357,625**	**357,625**	357,625	357,625
Security deposit	**1,616,970**	**1,616,970**	1,616,970	1,616,970
	P 373,942,291	**P 373,942,291**	P 288,981,591	P 288,981,591
Financial Liabilities at amortized cost:				
Trade and other payables	**P 129,262,898**	**P 129,262,898**	P 125,959,948	P 125,959,948
Lease liabilities	**14,704,752**	**14,704,752**	19,212,703	19,212,703
	P 143,967,650	**P 143,967,650**	P 145,172,651	P 145,172,651

Management considers that the carrying amounts of these financial assets and financial liabilities approximate their fair values as of December 31, 2020 and 2019 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 Note 2.3 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 18.

19.2 Offsetting of Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2020 and 2019 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.

19.3 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, 2020 and 2019.

All financial instruments carried at amortized cost (see Note 19.1) as of December 31, 2020 and 2019 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.

20 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 Regulations (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

20.1 Requirements Under RR No. 15-2010

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 2020, the Company reported output VAT as follows:

	Tax Base	Output VAT
Sale of Goods		
Taxable sales	**P 330,058,929**	P 39,607,072
Exempt sales	**212,975,336**	-
Total sales	**543,034,265**	-
Less: Provision for sales returns	**2,235,994**	-
	P 540,798,271	P 39,607,072

The Company's outstanding output VAT is reported as part of Trade and Other Payables account in the 2020 statement of financial position (see Note 10).

(b) Input VAT

The movements in input VAT in 2020 are summarized below.

Balance at beginning of year	P -
Services lodged under other accounts	24,645,635
Applied against output VAT	(24,645,635)
Balance at end of year	**P -**

(c) Taxes on Importation

Customs duties and tariff fees totaling P9,791,727 were paid in 2020 for all of the Company's imported inventories from its parent company.

(d) Excise Tax

The Company did not have any transactions in 2020 which are subject to excise tax.

(e) Documentary Stamp Tax (DST)

DST amounting to P84,416 was paid in 2020 related to the purchase and renewal of the Company's car insurances [see Note 20.1(f)].

(f) Taxes and Licenses

The details of taxes and licenses paid in 2020 are as follows:

	Notes	
Business permits		P 1,517,772
DST	20.1(e)	84,416
Regulatory, registration and filing fees		39,500
Community tax certificate		10,500
Others		2,160
	12.2	**P 1,654,348**

(g) Withholding Taxes

The details of total withholding taxes in 2020 are shown below.

Compensation	P 10,224,123
Expanded	1,888,832
Final	63,920
	P 12,176,875

(h) Deficiency Tax Assessments and Tax Cases

As of December 31, 2020, the Company did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR.

20.2 Requirements Under RR No. 34-2020

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