

Report of Independent Certified Public Accountants to Accompany Income Tax Return

Punongbayan & Araullo

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The Enterprise Center
6766 Ayala Avenue
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The Board of Directors

Curatio Inc.

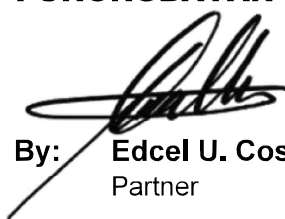
*[A Wholly Owned Subsidiary of
Curatio Healthcare (I) Private Limited]*

Unit 2114 Cityland 10 Tower II
H.V. Dela Costa St., Salcedo Village Bel-air
Makati City

We have audited the financial statements of Curatio Inc. (the Company) for the year ended March 31, 2023, on which we have rendered the attached report dated April 28, 2023.

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: **Edcel U. Costales**
Partner

CPA Reg. No. 0134633
TIN 274-543-395
PTR No. 9566630, January 3, 2023, Makati City
SEC Group A Accreditation
Partner - No. 134633-SEC (until financial period 2026)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-045-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 28, 2023

Report of Independent Auditors

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Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Curatio Inc. (the Company), which comprise the statements of financial position as of March 31, 2023 and 2022, 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 of March 31, 2023 and 2022, 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.

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Company's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended March 31, 2023, required by the Bureau of Internal Revenue as disclosed in Note 21 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: Edcel U. Costales
Partner

CPA Reg. No. 0134633
TIN 274-543-395
PTR No. 9566630, January 3, 2022, Makati City
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BIR AN 08-002551-045-2023 (until Jan. 24, 2026)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 28, 2023

CURATIO INC.
[A Wholly Owned Subsidiary of Curatio Healthcare (I) Private Limited]
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash	4	P 3,034,398	P 5,975,190
Trade and other receivables - net	5	11,090,033	6,358,251
Due from parent company	15	-	1,096,788
Inventories	6, 12	2,581,318	1,021,267
Prepayments and other current assets	7	674,151	526,282
		<hr/>	<hr/>
Total Current Assets		17,379,900	14,977,778
		<hr/>	<hr/>
NON-CURRENT ASSETS			
Property and equipment - net	8	1,133,368	1,387,276
Right-of-use asset - net	9	1,274,664	1,622,300
Refundable deposit	9	109,318	109,318
		<hr/>	<hr/>
Total Non-current Assets		2,517,350	3,118,894
		<hr/>	<hr/>
TOTAL ASSETS		P 19,897,250	P 18,096,672
		<hr/>	<hr/>
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Accounts and other payables	10	P 1,233,274	P 1,191,493
Lease liability	9	287,730	260,016
Due to parent company	15	3,658,898	-
Bank loans	11	-	237,116
		<hr/>	<hr/>
Total Current Liabilities		5,179,902	1,688,625
		<hr/>	<hr/>
NON-CURRENT LIABILITIES			
Lease liability	9	1,089,738	1,377,468
Bank loans	11	-	765,145
		<hr/>	<hr/>
Total Non-Current Liabilities		1,089,738	2,142,613
		<hr/>	<hr/>
Total Liabilities		6,269,640	3,831,238
		<hr/>	<hr/>
EQUITY			
Capital stock	16	108,810,500	108,810,500
Additional paid-in capital	16	817	817
Deficit		(95,183,707)	(94,545,883)
		<hr/>	<hr/>
Total Equity		13,627,610	14,265,434
		<hr/>	<hr/>
TOTAL LIABILITIES AND EQUITY		P 19,897,250	P 18,096,672
		<hr/>	<hr/>

See Notes to Financial Statements.

CURATIO INC.
[A Wholly Owned Subsidiary of Curatio Healthcare (I) Private Limited]
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
SALE OF GOODS	2	P 30,841,324	P 24,224,140
COST OF SALES	12	<u>8,538,742</u>	<u>6,091,455</u>
GROSS PROFIT		<u>22,302,582</u>	<u>18,132,685</u>
OPERATING EXPENSES			
Salaries and employee benefits	13, 15	13,406,604	12,409,964
Per diem and transportation allowance		2,762,451	2,292,296
Advertising and promotion		1,578,054	656,379
Professional fees		1,034,431	702,384
Transportation and travel		818,280	779,843
Impairment loss on receivables	5	713,996	649,557
Depreciation and amortization	8, 9	656,901	804,253
Communication, light and water		461,977	518,127
Taxes and licenses		169,616	413,374
Representation		141,542	176,313
Rentals	9	121,910	71,505
Repairs and maintenance		82,409	53,816
Miscellaneous	11	<u>643,145</u>	<u>825,906</u>
		<u>22,591,316</u>	<u>20,353,717</u>
OPERATING LOSS		(<u>288,734</u>)	(<u>2,221,032</u>)
OTHER INCOME (CHARGES) – Net			
Interest expense	9, 11	(<u>228,729</u>)	(100,762)
Foreign currency exchange gain		100,577	156,442
Interest income	4	3,174	6,388
Other income	8	<u>-</u>	<u>626,929</u>
		(<u>124,978</u>)	<u>688,997</u>
LOSS BEFORE TAX		(<u>413,712</u>)	(1,532,035)
TAX EXPENSE	14	<u>224,112</u>	<u>189,511</u>
NET LOSS		(<u>637,824</u>)	(1,721,546)
OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE LOSS		(<u>P 637,824</u>)	(<u>P 1,721,546</u>)

See Notes to Financial Statements.

CURATIO INC.
[A Wholly Owned Subsidiary of Curatio Healthcare (I) Private Limited]
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
CAPITAL STOCK	16		
Balance at beginning of year		P 108,810,500	P 99,061,300
Issuance during the year		<u>-</u>	<u>9,749,200</u>
Balance at end of year		<u>108,810,500</u>	<u>108,810,500</u>
ADDITIONAL PAID-IN CAPITAL	16		
Balance at beginning of year		817	748
Addition during the year		<u>-</u>	<u>69</u>
Balance at end of year		<u>817</u>	<u>817</u>
DEFICIT			
Balance at beginning of year		(94,545,883)	(92,824,337)
Net loss for the year		(<u>637,824</u>)	(<u>1,721,546</u>)
Balance at end of year		(<u>95,183,707</u>)	(<u>94,545,883</u>)
TOTAL EQUITY		<u>P 13,627,610</u>	<u>P 14,265,434</u>

See Notes to Financial Statements.

CURATIO INC.
[A Wholly Owned Subsidiary of Curatio Healthcare (I) Private Limited]
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MARCH 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(P 413,712)	(P 1,532,035)
Adjustments for:			
Depreciation and amortization	8, 9	656,901	804,253
Interest expense	9, 11	228,729	100,762
Unrealized foreign currency exchange gain - net		(100,577)	(156,442)
Interest income	4	(3,174)	(6,388)
Operating loss before working capital changes		368,167	(789,850)
Increase in trade and other receivables		(4,731,782)	(1,600,713)
Decrease (increase) in inventories		(1,560,051)	875,135
Increase in prepayments and other current assets		(370,872)	(13,680)
Increase in refundable deposit		-	(109,318)
Increase in accounts and other payables		42,402	9,048
Increase (decrease) in due to parent company		4,755,686	(1,096,788)
Cash used in operations		(1,496,450)	(2,726,166)
Interest received		3,174	6,388
Cash paid for taxes		(1,110)	(71,739)
Net Cash Used in Operating Activities		(1,494,386)	(2,791,517)
CASH FLOW FROM AN INVESTING ACTIVITY			
Acquisition of property and equipment	8	(55,357)	(591,964)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans	11	(1,002,261)	(381,680)
Repayments of lease liability	9	(393,271)	(363,476)
Interest paid	11	(96,094)	(51,017)
Net Cash Used in Financing Activities		(1,491,626)	(796,173)
Effect of Foreign Exchange Rate Changes on Cash		100,577	156,442
NET DECREASE IN CASH		(2,940,792)	(4,023,212)
CASH AT BEGINNING OF YEAR		5,975,190	9,998,402
CASH AT END OF YEAR		<u>P 3,034,398</u>	<u>P 5,975,190</u>

Supplemental Information on Non-cash Investing and Financing Activities:

- 1) The Company applied and reclassified its deposit for future stock subscription amounting to P9.75 million relative to the issuance of shares of stock in 2022. There was no similar transaction in 2023 (see Notes 15 and 16).
- 2) The Company recognized right-of-use asset and lease liability amounting to P1.68 million in relation to a lease contract renewed in 2022. There was no similar transaction in 2023 (see Note 9).
- 3) The Company acquired a certain vehicle in 2022 amounting to P1.48 million, of which P0.89 million is financed through a loan from a local bank. There was no similar transaction in 2023 (see Notes 8 and 11).

See Notes to Financial Statements.

CURATIO INC.
[A Wholly Owned Subsidiary of Curatio Healthcare (I) Private Limited]
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2023 AND 2022
(Amounts in Philippines Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Curatio Inc. (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 24, 2015 to primarily conduct the business of buying, wholesaling or distributing drugs, medicines, and pharmaceutical products of all kinds and description.

The Company is a wholly owned subsidiary of Curatio Healthcare (I) Private Limited (the parent company), which was incorporated and domiciled in India. The parent company is primarily engaged in manufacturing, selling and distributing dermatological products.

The registered office address of the Company, which is also its principal place of business, is located at Unit 2114 Cityland 10 Tower II, H.V. Dela Costa St., Salcedo Village Bel-air, Makati City. The registered office address of the parent company is located at 25/13 White Road, 4th Floor, Mamatha Complex, Royapettah, Chennai, India.

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

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. In 2022, the country's economic status improved because of reopening of local and international travels and loosening of health and safety protocols and restrictions. Demand and supply of products are slowly returning to pre-pandemic levels. As a result, overall continuing impact of the COVID-19 pandemic to the Company is continuously improving and Company's operations is slowly going back to its pre-pandemic levels.

Due to the foregoing and through the Company's action plans to mitigate the effect of COVID-19 pandemic on its business, the Company was able to trim its losses. However, it continues to report deficit of P95.12 million and P94.55 million as at March 31, 2023 and 2022, respectively, due to the substantial net losses incurred in 2023 and in prior years. While this condition raises significant doubt on the ability of the Company to continue as a going concern, the parent company has committed to provide continuing financial support to the Company to remain operating and to continuously meet its liabilities as and when these fall due. Accordingly, the financial statements have been prepared assuming that the Company will continue as a going concern entity which contemplates the realization of assets and the settlement of liabilities in the normal course of business.

1.3 Approval of Financial Statements

The financial statements of the Company as of and for the fiscal year ended March 31, 2023 (including the comparative financial statements as of and for the fiscal year ended March 31, 2022) were authorized for issue by the Company's Board of Directors (BOD) on April 28, 2023.

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 during the periods presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The Company has qualified as a Small Entity (SE) based on the criteria set by the SEC. Entities qualifying as SEs are required to use PFRS for SEs as its financial reporting framework. However, as allowed under the exemptions provided by the SEC for mandatory adoption of PFRS for SEs, the Company has opted to use PFRS in the preparation of its financial statements on the basis that it is a subsidiary of a company that is reporting and preparing financial statements in accordance with International Financial Reporting Standards (see Note 1.1).

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, expenses and other comprehensive income or losses 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 Amended PFRS

(a) *Effective in Fiscal Year 2023 that are Relevant to the Company*

The Company adopted for the first time the following pronouncements which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	: Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	: Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)	
PFRS 9 (Amendments)	: Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities
PFRS 16 (Amendments)	: Leases – Lease Incentives

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

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use*. 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. The application of these amendments had no significant impact on the Company's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract*. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Company's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Company's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.
- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Company's financial statements:
- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
 - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

(b) *Effective in 2022 that are not Relevant to the Company*

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Company's financial statements:

- (i) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework* (effective from January 1, 2022)
- (ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Company:
- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary as a First-time Adopter*
 - PAS 41, *Agriculture – Taxation in Fair Value Measurements*

(c) *Effective Subsequent to 2022 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Current versus Non-current Classification

The Company presents assets and liabilities in the statement of financial position based on current or non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within 12 months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

2.4 *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*

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 and Measurement of Financial Assets*

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

Except for trade receivables and other receivables that do not contain a significant component and are measured at transaction price in accordance with PFRS 15, *Revenue from Contract with Customers*, all financial assets meeting the criteria are initially recognized at fair value plus any directly attributable transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit loss (ECL).

The Company's financial assets measured at amortized cost are presented as Cash, Trade and Other Receivables (except Other receivables), Due from Parent Company and Refundable Deposit in the statement of financial position.

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.

For purposes of cash flows reporting and presentation, cash represents demand deposit maintained in a local bank that is unrestricted and readily available for use in the Company's operations, which is subject to insignificant risk of changes in value.

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 Interest Income.

(ii) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses and recognizes allowance for ECL on its financial assets measured at amortized cost. The measurement of ECL involves consideration of broader range of information that is available without undue cost or effort at the reporting date about past events, current conditions, and reasonable and supportable forecasts of future economic conditions (i.e., forward-looking information) that may affect the collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company recognizes lifetime ECL for all trade and other receivables. The ECL on these assets are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to the debtors, adjusted for general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics.

The Company determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

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

- *Probability of default* – It is an estimate of likelihood of a 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.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(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

The Company's financial liabilities include accounts and other payables (excluding tax-related liabilities), bank loans and due to parent company. All interest-related charges incurred on a financial liability are recognized as expenses in profit or loss under the caption Interest Expense in the statement of comprehensive income.

Bank loans are raised for support of long-term funding of operations. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Accounts and other payables and due to parent company 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 twelve 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. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. 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 Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as single financial asset or financial liability, is reported in the statement of financial position when there is 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 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.

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of inventories includes all costs directly attributable to acquisition, such as purchase price, import duties, and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

At the end of the reporting period, inventories are assessed for impairment, i.e., the carrying amount is not fully recoverable due to damage, obsolescence or declining selling prices.

2.6 Prepayments and Other Assets

Prepayments and other current 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 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, when 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.

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 2.13).

2.7 Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. 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 major additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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

Transportation equipment	5 years
Furniture and fixtures	3 years

If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation and amortization of that asset is revised prospectively to reflect the new expectations.

Fully depreciated assets are retained in the accounts until these are no longer in use. No further charge of depreciation 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 2.13).

The residual values, estimated useful lives and method of depreciation 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 any impairment loss, 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.

2.8 Deposit for Future Stock Subscription

Deposit for future stock subscription refers to the amount of money or property received by the Company with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize. The Company does not consider a deposit for stock subscription as an equity instrument unless all of the following elements are present:

- (i) The unissued authorized capital stock of the Company is insufficient to cover the deposit;
- (ii) The Company's BOD and stockholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and,
- (iii) An application for the approval of the increase in capital stock has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits for future stock subscription will be reclassified to equity accounts when the Company meets the foregoing criteria.

2.9 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of each 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. In addition, where 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 provisions due to the passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

2.10 Revenue and Expense Recognition

The Company's revenue arises mainly from sale or distribution of pharmaceutical products of all kinds and description.

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

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

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

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

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

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

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

Revenue comprises of sale of goods measured by reference to the fair value of consideration received or receivable by the Company for goods sold, excluding value-added tax (VAT) and trade discounts.

In addition, revenue from sale of goods is recognized at a point-in-time, when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.

Revenue from sale or distribution of pharmaceutical products of all kinds and description are recognized as the control transfer at the point in time with the customer. Invoices for pharmaceutical products transferred are due upon receipt by the customer. Significant judgments in determining the timing of satisfaction of the performance obligations and transaction price are disclosed in Note 3.1(a) and 3.1(b), respectively.

No disaggregation of revenue is presented in the financial statements as the Company has only one revenue stream, which is the sale or distribution of pharmaceutical products of all kinds and description.

Costs and expenses are recognized in profit or loss upon receipt of goods or at the date they are incurred. All interest expense are reported in profit or loss on an accrual basis.

2.11 Lease – Company as Lessee

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 the 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.

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 (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. 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.

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

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

2.12 Foreign Currency Transactions and Translation

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

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

2.13 Impairment of Non-financial Assets

The Company's property and equipment, right-of-use asset and other non-financial assets are subject to impairment testing. Individual assets are tested for impairment 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. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.14 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized 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.

As of March 31, 2023 and 2022, certain employees have been entitled for post-employment benefit based on the provisions of Republic Act (R.A.) No. 7641, *The Retirement Pay Law*. However, the management assessed that post-employment defined benefit obligation as of the end of the reporting periods is still insignificant; hence, not recognized.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity, such as the 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 or assets may be recognized if underpayment or prepayment has occurred.

(c) Compensated Absences

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

2.15 Income Taxes

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

Current tax assets or current tax 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 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 year. All changes to current tax assets or current tax 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 the 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and deferred tax 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 measurement of deferred tax assets and deferred tax liabilities 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 deferred tax liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or deferred tax liabilities that relate to items recognized in other comprehensive income or directly in equity are 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 entity and the same taxation authority.

2.16 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (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.

2.17 Equity

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

Deposit for future stock subscription refers to the amount of money or property received by the Company with the purpose of applying the same as payment for future issuance of stocks which may or may not materialize (see Note 2.8).

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

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

2.18 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Timing of Satisfaction of Performance Obligations

The Company determines that its revenue from sale or distribution of drugs, medicines, and pharmaceutical products of all kinds and description shall be recognized at a point in time when the control of the goods have passed to the customer, that is, generally when the customer has acknowledged delivery of the goods.

(b) Determination of Transaction Price

The transaction price is considered receivable to the extent of products sold with a right to avail discounts. Discounts are identifiable to specific goods and are recognized as deduction against the revenue recognized from sale of goods.

(c) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.9 and disclosures on significant commitments and contingencies are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Determination of Appropriate Discount Rate in Measuring Lease Liability

The Company measures its lease liability 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) Determination of ECL on Trade and Other Receivables, and Refundable Deposit

The Company uses a provision matrix to calculate ECL for trade and other receivables and due from parent company. 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 approach to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

With respect to refundable deposit, management assessed that there's no need to establish allowance for ECL, since these are expected to be collected in full. Based on management evaluation of information and circumstances affecting the Company's Trade and Other Receivables, and Refundable Deposit as of March 31, 2023 and 2022, the Company has not recognized any impairment loss except for certain trade receivables (see Note 5). Details about the ECL on these financial assets are disclosed in Note 18.

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

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The future realization of the carrying amounts of inventories as discussed in Note 6 is affected by price changes in the related industry and the costs incurred necessary to make a sale. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial reporting period.

(d) *Estimation of Useful Lives of Property and Equipment and Right-of-Use Asset*

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

The carrying amounts of property and equipment and right-of-use asset are presented in Notes 8 and 9, respectively. Based on management's assessment as at March 31, 2022 and 2021, there is no change in estimated useful lives of property and equipment during the years. For the right-of-use asset, the Company bases the useful life on the lease term agreed upon in the lease contract. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *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.

As of March 31, 2023 and 2022, no deferred tax assets were recognized as the Company believes that it may not be able to recover the related benefits from assets in the subsequent reporting periods (see Note 14).

(f) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.13. Though management believes that the assumptions used in the estimation of fair values 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.

Based on management's assessment, no impairment loss is necessary to be recognized on the Company's non-financial assets for the fiscal years ended March 31, 2023 and 2022.

4. CASH

Cash as of March 31 includes the following components:

	<u>2023</u>	<u>2022</u>
Cash on hand	P 109,054	P 379,842
Cash in banks	<u>2,925,344</u>	<u>5,595,348</u>
	<u>P 3,034,398</u>	<u>P 5,975,190</u>

Cash in banks generally earn interest at rates based on daily bank deposit rate. Interest income recognized on bank deposits amounted to P3,174 and P6,388 in 2023 and 2022, respectively, and is presented as Interest income under Other Income (Charges) – Net section of the statements of comprehensive income.

5. TRADE AND OTHER RECEIVABLES

This account consists of the following:

	<u>2023</u>	<u>2022</u>
Trade receivables	P 11,058,973	P 5,695,704
Others	<u>1,394,613</u>	<u>1,312,104</u>
	12,453,586	7,007,808
Allowance for impairment losses	(<u>1,363,553</u>)	(<u>649,557</u>)
	<u>P 11,090,033</u>	<u>P 6,358,251</u>

Trade receivables are usually due within 30 to 90 days after the date of delivery of goods and do not bear any interest.

Other receivables include receivables from employees and advances subject to liquidation within 30 days.

All of the Company's trade and other receivables have been reviewed for impairment. Certain receivables amounting to P0.71 million and P0.65 million were found to be impaired as of March 31, 2023 and March 31, 2022, respectively as determined by the management; hence, adequate amounts of allowance for impairment have been recognized and is presented under Operating Expenses in the 2022 statement of comprehensive income. This assessment is undertaken each financial year by examining based on the Company's established ECL methodology as fully disclosed in Note 18.2.

The movement in the allowance for bad debts as of March 31, 2023 and 2022 is shown below.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	P 649,557	P -
Additional allowance for the year	<u>713,996</u>	<u>649,557</u>
	<u>P 1,363,553</u>	<u>P 649,557</u>

6. INVENTORIES

The Company's inventories are mainly composed of skin care products.

All inventories are stated at cost, which is lower than its net realizable value. The total inventories as of March 31, 2023 and 2022 amounted to P2.58 million and P1.02 million, respectively.

An analysis of the cost of inventories included in cost of sales for the fiscal years ended March 31, 2023 and 2022 is presented in Note 12.

7. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of March 31 is as follows:

	<u>2023</u>	<u>2022</u>
Creditable withholding tax	P 321,930	P 290,214
Input VAT	245,362	109,278
Prepaid insurance	75,194	57,126
Other prepayments	<u>31,665</u>	<u>69,664</u>
	<u>P 674,151</u>	<u>P 526,282</u>

8. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment as at the beginning and end of the reporting periods are shown below and in the succeeding page.

	<u>Transportation Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
March 31, 2023			
Cost	P 4,859,337	P 945,304	P 5,804,641
Accumulated depreciation	(<u>3,769,025</u>)	(<u>902,248</u>)	(<u>4,671,273</u>)
Net carrying amount	<u>P 1,090,312</u>	<u>P 43,056</u>	<u>P 1,133,368</u>
March 31, 2022			
Cost	P 4,859,337	P 889,946	P 5,749,283
Accumulated depreciation	(<u>3,472,061</u>)	(<u>889,946</u>)	(<u>4,362,007</u>)
Net carrying amount	<u>P 1,387,276</u>	<u>P -</u>	<u>P 1,387,276</u>

	<u>Transportation Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
April 1, 2021			
Cost	P 3,374,516	P 889,946	P 4,264,462
Accumulated depreciation	(<u>2,964,531</u>)	(<u>888,310</u>)	(<u>3,852,841</u>)
Net carrying amount	<u>P 409,985</u>	<u>P 1,636</u>	<u>P 411,621</u>

A reconciliation of the carrying amount of the property and equipment at the beginning and end of fiscal years 2023 and 2022 is shown below.

	<u>Transportation Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Balance at April 1, 2022, net of accumulated depreciation	P 1,387,276	P -	P 1,387,276
Additions	-	55,357	55,357
Depreciation charges for the year	(<u>296,964</u>)	(<u>12,301</u>)	(<u>309,265</u>)
Balance at March 31, 2023, net of accumulated depreciation	<u>P 1,090,312</u>	<u>P 43,056</u>	<u>P 1,133,368</u>
Balance at April 1, 2021, net of accumulated depreciation	P 408,985	P 1,636	P 411,621
Additions	1,484,821	-	1,484,821
Depreciation charges for the year	(<u>506,530</u>)	(<u>1,636</u>)	(<u>509,166</u>)
Balance at March 31, 2022, net of accumulated depreciation	<u>P 1,387,276</u>	<u>P -</u>	<u>P 1,387,276</u>

The Company's transportation equipment was used as collateral to its bank loan obtained in prior years (see Note 11). As of March 31, 2023 and 2022, such transportation equipment used as collateral has a carrying amount of P1.09 million and P1.39 million, respectively.

The amount of depreciation is presented as part of Depreciation and amortization under Operating Expenses section of the statements of comprehensive income.

In fiscal year 2022, one of the Company's fully depreciated transportation equipment still in use was involved in an accident. The Company claimed and recovered an amount of P0.63 million from an insurance company as cover and compensation for the damages suffered by the vehicle. Such claim was recognized by the Company as Other Income in the 2022 statement of comprehensive income.

The cost of fully depreciated assets that are still being used in operations amounted to P0.89 million as of March 31, 2023 and 2022.

9. LEASES

In prior years, the Company entered into a non-cancellable operating lease agreement covering its office space. The lease term is for a period of five years and is renewable within 60 days before the end of the contract subject to mutual agreement by both parties. In fiscal year 2022, the parties agreed to renew the contract for another five years.

Among others, the lease contract provides for fixed monthly rentals with refundable deposit, advance rental and renewal option upon consent of the parties. Refundable deposit amounted to P109,318 in both fiscal years and is equivalent to three-month rental adjusted based on the monthly rate at the end of each fiscal year. The refundable deposit is presented as Refundable Deposit under Non-current Assets in the statements of financial position.

With the exception of leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use asset and lease liability as a separate line item in the statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. The lease can be pre-terminated by the lessor upon noncompliance of the lessee on the terms and conditions issued by the former. The Company has been compliant, and no instance has it received of any notice from the lessor. The Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

9.1 *Right-of-use Asset*

The gross carrying amounts and accumulated amortization of the Company's right-of-use asset at the beginning and end of fiscal years ended March 31, 2023 and 2022 are shown below.

	<u>2023</u>	<u>2022</u>
Cost		
Balance at beginning of year	P 2,486,541	P 806,302
Addition	<u>-</u>	<u>1,680,239</u>
Balance at end of year	<u>2,486,541</u>	<u>2,486,541</u>
Accumulated amortization		
Balance at beginning of year	864,241	569,154
Amortization	<u>347,636</u>	<u>295,087</u>
Balance at end of year	<u>1,211,877</u>	<u>864,241</u>
Net carrying amount	<u>P 1,274,664</u>	<u>P 1,622,300</u>

The amortization expense relating to right-of-use asset is presented as part of Depreciation and Amortization under Operating Expenses section of the statements of comprehensive income.

9.2 *Lease Liability*

Total outstanding balance of lease liability as of March 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Current	P 287,730	P 260,016
Non-current	<u>1,089,738</u>	<u>1,377,468</u>
	<u>P 1,377,468</u>	<u>P 1,637,484</u>

The movements in the lease liability recognized in the statements of financial position are as follows:

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	P 1,637,484	P 268,512
Repayment of lease liability	(393,271)	(363,476)
Accretion of interest	133,256	52,209
Addition	<u>-</u>	<u>1,680,239</u>
Balance at end of year	<u>P 1,377,468</u>	<u>P 1,637,484</u>

The lease liability is secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities is shown below.

	<u>Within 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>4 to 5 years</u>	<u>Total</u>
<u>March 31, 2023</u>						
Lease payments	P 399,826	P 432,598	P 439,808	P 396,548	P -	P 1,668,780
Finance charges	(112,096)	(88,681)	(60,694)	(29,842)	-	(291,313)
Net Present Value	<u>P 287,730</u>	<u>P 343,917</u>	<u>P 379,114</u>	<u>P 366,706</u>	<u>P -</u>	<u>P 1,377,467</u>
<u>March 31, 2022</u>						
Lease payments	P 393,271	P 399,826	P 432,598	P 439,808	P 396,548	P 2,062,052
Finance charges	(133,255)	(112,096)	(88,681)	(60,694)	(29,842)	(424,568)
Net Present Value	<u>P 260,016</u>	<u>P 287,730</u>	<u>P 343,917</u>	<u>P 379,114</u>	<u>P 366,706</u>	<u>P 1,637,484</u>

9.3 Lease Payments Not Recognized as Liabilities

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

The expenses relating to low-value assets amounted to P0.12 million and P0.07 million in 2023 and 2022, respectively, and are presented as Rentals under Operating Expenses section of the statements of comprehensive income.

As at March 31, 2023 and 2022, the Company is committed to leases of low-value assets. Total commitment as at such dates is P0.10 million.

9.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases, including expenses relating to low-value assets (see Note 9.3), amounted to P0.49 million and P0.43 million in 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P0.10 million and P0.05 million in 2023 and 2022, respectively, and is presented as part of Interest expense under Other Income (Charges) – Net section of the statements of comprehensive income.

10. ACCOUNTS AND OTHER PAYABLES

The composition of this account is as follows:

	<u>Note</u>	<u>2023</u>	<u>2022</u>
Accounts payable	11	P 629,255	P 661,416
Output VAT		231,361	162,552
SSS premium payable		105,805	119,554
PHIC premium payable		72,696	95,178
Withholding tax payable		123,973	85,720
HDMF premium payable		53,750	51,550
Others		<u>16,434</u>	<u>15,523</u>
		<u>P 1,233,274</u>	<u>P 1,191,493</u>

Accounts payable includes liabilities arising from the purchases of inventory, professional fees, employee reimbursements, interest and utilities. Other payables pertain to the other mandatory government-related employee benefits.

11. BANK LOANS

In previous years, the Company obtained loans from a local bank to finance the acquisition of the Company's transportation equipment. In 2022, the Company made a similar acquisition of service vehicle which was also partially financed through a bank loan. Accordingly, these loans are secured by the related transportation equipment (see Note 8). The carrying amount of bank loan as at March 31, 2022 is as follows.

Current	P 237,116
Non-current	<u>765,145</u>
	<u>P 1,002,261</u>

In 2023, the Company fully repaid its bank loans. Also, in 2023, the Company pre-terminated the remaining outstanding loan, which was originally due on November 11, 2026. This resulted to a pre-termination loss amounting to P11,529, which is presented as part of Miscellaneous under Operating Expenses account in the 2023 statement of comprehensive income.

The loans have effective interest rates ranging from 9.44% to 10.80% and repayable on installment basis for 60 months. The total interest expense incurred on the said loans amounted to P95,473 and P48,553 in 2023 and 2022, respectively, and is presented as part of Interest expense under Other Income (Charges) – Net of the statements of comprehensive income. Accrued interest payable amounted to P2,339 in 2023 and 2022, and is presented as part of Accounts payable under Accounts and Other Payables account in the statements of financial position (see Note 10).

Presented below is the reconciliation between the opening and closing balances of the Company's bank loans.

	<u>2023</u>	<u>2022</u>
Balance at beginning of year	P 1,002,261	P 491,085
Repayment of loans	(1,002,261)	(381,680)
Additions	<u>-</u>	<u>892,856</u>
Balance at end of year	<u>P -</u>	<u>P 1,002,261</u>

12. COST OF SALES

The details of cost of sales for the fiscal years 2023 and 2022 are shown below.

	<u>Notes</u>	<u>2023</u>	<u>2022</u>
Inventories at beginning of year		P 1,021,267	P 1,896,402
Purchases during the year	15.2	10,098,793	5,216,320
Inventories at end of year	6	(2,581,318)	(1,021,267)
		<u>P 8,538,742</u>	<u>P 6,091,455</u>

13. EMPLOYEE BENEFITS

Expenses recognized for salaries and employee benefits pertain only to short-term employee benefits amounting to P13.41 million and P12.41 million in 2023 and 2022, respectively, which are presented as Salaries and employee benefits under Operating Expenses section of the statements of comprehensive income.

The Company has not recognized retirement benefit obligation for its employees who are entitled as of March 31, 2023 and 2022 since the management has assessed that the amount is not yet significant to the Company's financial statements.

14. INCOME TAXES

The components of tax expense reported in the statements of comprehensive income are as follows:

	<u>2023</u>	<u>2022</u>
Minimum corporate income tax (MCIT) at 1%	P 223,002	P 187,563
Final taxes at 20% and 15%	<u>1,110</u>	<u>1,948</u>
	<u>P 224,112</u>	<u>P 189,511</u>

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

	<u>2023</u>	<u>2022</u>
Tax on pretax loss at 20%	(P 82,742)	(P 306,407)
Tax effects of:		
Unrecognized deferred tax assets	302,549	484,490
Non-deductible expenses	<u>4,305</u>	<u>11,428</u>
	<u>P 224,112</u>	<u>P 189,511</u>

The Company incurred net operating loss carryover (NOLCO) in both reporting periods. Based on the financial and operating forecasts of the Company, management believes that it may not be able to generate taxable income in the near future, enough to utilize in full the benefits of NOLCO incurred in the current and prior years within the prescribed period. Accordingly, the Company has not recognized the corresponding deferred tax assets on NOLCO as of March 31, 2023 and 2022 amounting to P2.44 million and P5.23 million, respectively.

The NOLCO incurred by the Company for the fiscal years 2022 and 2021 can be claimed as a deduction from future gross taxable income within five consecutive years or until 2025 and 2026, respectively, pursuant to Section 4 (bbbb) of R.A. No. 11494, *Bayaniban to Recover as One Act (Bayaniban II)*.

The details of NOLCO, which can be applied as deduction from future taxable income within three to five years from the year the NOLCO was incurred, are shown below.

<u>Year Incurred</u>	<u>Amount</u>	<u>Applied</u>	<u>Expired</u>	<u>Remaining Balance</u>	<u>Year of Expiry</u>
2022	P 1,288,846	P -	P -	P 1,288,846	2025
2021	10,917,364	-	-	10,917,364	2026
2020	<u>13,936,380</u>	(<u>495,752</u>)	(<u>13,476,628</u>)	<u>-</u>	
	<u>P 42,948,657</u>	(<u>P 495,752</u>)	(<u>P 13,476,628</u>)	<u>P 12,206,210</u>	

The components of unrecognized deferred tax assets of the Company relating to temporary differences as of March 31, 2023 and 2022 are as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Tax Base</u>	<u>Tax Effect</u>	<u>Tax Base</u>	<u>Tax Effect</u>
NOLCO	P 12,206,210	P 2,441,242	P 26,142,590	P 5,228,518
Allowance for bad debts	713,996	142,799	649,557	129,911
MCIT	525,396	525,396	607,527	607,527
Net unrealized foreign exchange loss (gain)	(100,577)	(20,115)	(156,442)	(31,288)
Leases	<u>102,804</u>	<u>20,561</u>	<u>15,183</u>	<u>3,037</u>
	<u>P 13,438,653</u>	<u>P 3,108,047</u>	<u>P 27,258,415</u>	<u>P 5,937,705</u>

The Company is subject to MCIT computed at 1.0% in 2023 and in 2022, as defined under Revenue Memorandum Circular No. 50-2021, of gross income, or RCIT, whichever is higher. The Company reported MCIT for both 2023 and 2022 amounting to P223,002 and P187,563, respectively, as the Company as a result of applied NOLCO in 2023 and net taxable loss position in 2022.

The details of the MCIT that can be utilized against future RCIT are shown below.

<u>Taxable Years</u>		<u>Original Amount</u>	<u>Expired During the Current Year</u>		<u>Balance</u>	<u>Valid Until</u>
2023	P	223,002	P -	P	223,002	2026
2022		187,563	-		187,563	2025
2021		114,831	-		114,831	2024
2020		<u>305,133</u>	(<u>305,133</u>)		<u>-</u>	
		<u>P 830,529</u>	(<u>P 305,133</u>)		<u>P 525,396</u>	

In 2023 and 2022, the Company opted to claim itemized deductions in computing for its income tax due.

15. RELATED PARTY TRANSACTIONS

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

The summary of the Company's transactions with its related parties as of the fiscal years ended March 31, 2023 and 2022 are shown below.

		2023		2022	
	Notes	Amount of Transactions	Outstanding Balance	Amount of Transactions	Outstanding Balance
Parent Company:					
Issuance of stock	16	P -	P 108,810,500	P 9,749,200	P 108,810,500
Deposit for future stock subscription	15.1, 16	-	-	(9,749,269)	-
Purchase of goods	15.2	10,098,793	-	5,216,320	-
Due from (to) parent company	15.2	(4,755,686)	(3,658,898)	1,096,788	1,096,788
Key Management Personnel –					
Compensation	15.3	8,177,460	-	7,863,300	-

15.1 Deposit for Future Stock Subscription

In fiscal year 2021, the Company received a total of \$200,716 (P9.75 million) from its parent company as payment for future stock subscription, which is presented under Equity section of the 2021 statement of financial position (see Note 16.2). In 2022, such balance was applied to the shares issued by the Company to the parent company upon receiving the SEC's approval for the increase in authorized capital stock (see Note 16.1).

15.2 Purchase of Goods

The Company purchases inventories from its parent company, which are then distributed for sale in the Philippines. Total purchases amounted to P10.10 million in 2023 and P5.51 million in 2022. There was no outstanding payable as of March 31, 2023 and 2022 arising from such transactions.

In fiscal year 2022, the Company paid in advance for inventories amounting to P1.10 million and is presented as Due from Parent Company in the 2022 statement of financial position. Such balance will be offset against inventories to be imported from the parent company in the succeeding year. There was no similar payment in advance made in 2023.

15.3 Key Management Personnel

The Company's key management personnel received a total short-term benefit compensation of P8.18 million in 2023 and 7.86 million in 2022, which is presented as part of Salaries and employee benefits under Operating Expenses section of the statements of comprehensive income.

16. EQUITY

16.1 Capital Stock

Capital stock consists of:

	Shares		Amount	
	2022	2021	2022	2021
Authorized – P100 par value	<u>1,500,000</u>	<u>1,500,000</u>	<u>P 150,000,000</u>	<u>P 150,000,000</u>
Issued and subscribed:				
Balance at beginning of year	<u>1,088,105</u>	<u>990,613</u>	<u>108,810,500</u>	<u>99,061,300</u>
Subscribed during the year	<u>-</u>	<u>97,492</u>	<u>-</u>	<u>9,749,200</u>
Balance at end of year	<u><u>1,088,105</u></u>	<u><u>1,088,105</u></u>	<u><u>P 108,810,500</u></u>	<u><u>P 108,810,500</u></u>

On August 25, 2021, the Company's application for the increase of authorized capital stock to P150.0 million has been approved by the SEC (see Note 16.2). After such, the Company issued additional 97,492 shares to the parent company and reclassified the related deposit for future stock subscription to capital stock.

The excess of the amounts received over the par value of additional shares issued is presented as Additional Paid-in Capital under Equity section of the statements of financial position.

As of March 31, 2023 and 2022, the Company has only one stockholder owning 100 or more shares of the Company's capital stock.

16.2 Deposit for Future Stock Subscription

On March 1, 2021, the Company's BOD approved the application for the increase in the authorized capital stock from P100,000,000 to P150,000,000 (see Note 15.1). The Company filed its application with the SEC on March 16, 2021 and is pending approval as of March 31, 2021. The total payment received by the Company from its parent company in fiscal year 2021 for future stock subscription is presented under Equity section of the 2021 statement of financial position (see Notes 2.8 and 15.1).

Upon obtaining approval from the SEC, the Company issued additional shares to the parent company by applying the proceeds from the Deposit for Future Stock Subscription account in the 2022 statement of financial position (see Note 16.1).

17. COMMITMENTS AND CONTINGENCIES

There are commitments and contingent liabilities that may arise in the normal course of the Company's operations that are not reflected in the financial statements. As of March 31, 2023 and 2022, the management is of the opinion that losses, if any, from these items will not have a material effect on the Company's financial statements. Losses, if any, will be recognized when these are actually incurred, determined and quantified.

18. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to its financial instruments. The Company's risk management is coordinated with the parent company, in close coordination with the BOD.

The Company does not actively 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 the Company's overseas inventory purchases, which is primarily denominated in United States (U.S.) dollars. The Company also holds U.S. dollar-denominated cash in bank.

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

The foreign currency-denominated financial assets, translated in Philippine pesos at the closing rate amounted to P.07 million as of March 31, 2023 and 2022.

If the Philippine pesos had strengthened against the U.S. dollars by 17.79% and 12.19% in 2023 and 2022, respectively, with all other variables held constant, loss before tax would have been lower by P0.01 million in both years. Conversely, if the Philippine pesos had weakened by the same percentage, with all other variables held constant, loss before tax would have been higher by the same amounts.

The 17.79% and 12.19% movement in the value of the peso against the U.S. dollar was estimated based on the market volatility in exchange rates, using standard deviation, in the previous 12 months using a 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held as at March 31, 2023 and 2022, respectively.

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

18.2 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from granting advances to officer and placing deposits.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below.

	Notes	2023	2022
Cash	11	P 3,034,398	P 5,975,190
Trade and other receivables – net	5	9,695,420	5,046,147
Due from parent company	15	-	1,096,788
Refundable bill deposit	9	109,318	109,318
		<u>P 12,839,316</u>	<u>P 12,227,443</u>

None of the financial assets of the Company are considered past due as at the end of the reporting periods. Further, the Company has no financial assets which are secured by collateral or other credit enhancements, except with respect to its cash in bank.

(a) *Cash*

The credit risk for cash is considered negligible since the counterparty is a reputable bank with high quality external credit rating. Included in cash are cash in banks that are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.50 million for every depositor per banking institution.

(b) *Trade Receivables*

The Company applies the simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other assets.

The expected loss rates are based on the payment profiles of sales over a period of 12 months before March 31, 2023 and 2022 and the corresponding historical credit losses experienced within such period. 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 foreign currency exchange rate in which it sells its goods to be the most relevant factors in 2023 and 2022, and accordingly adjusts the historical loss rates based on the expected changes in these factors.

In fiscal year 2023 and 2022, the Company deemed it necessary to recognize an allowance for impairment of certain receivables amounting to P1.36 million and P0.65 million, respectively (see Note 5).

(c) *Refundable Deposit*

The Company is also not exposed to significant credit risk with respect to security deposit as the counterparty is engaged in a profitable industry and with high quality external credit ratings. Further, such deposit can be applied against future rentals towards the end of the lease term.

18.3 Liquidity Risk

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

As at March 31, 2022 and 2021, the Company's financial liabilities (except lease liability – see Note 9.2) have gross contractual maturities which are presented below.

		Current		Non-current
	Notes	Within 6 Months	6 to 12 Months	1 to 5 Years
<u>March 31, 2023</u>				
Accounts and other payables	10	<u>P 629,255</u>	<u>P -</u>	<u>P -</u>
<u>March 31, 2022</u>				
Accounts and other payables	10	P 664,416	P -	P -
Bank loans	11	<u>202,643</u>	<u>127,704</u>	<u>932,557</u>
		P 867,059	P 127,704	P 932,557

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

19.1 Carrying Amounts and Fair Value by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		2023		2022	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
<i>At amortized cost:</i>					
Cash	4	P 3,034,398	P 3,034,398	P 5,975,190	P 5,975,190
Trade receivables – net	5	9,695,420	9,695,420	5,046,147	5,046,147
Refundable deposit		<u>109,318</u>	<u>109,318</u>	<u>109,318</u>	<u>109,318</u>
		<u>P 12,839,136</u>	<u>P 12,839,136</u>	<u>P 11,130,655</u>	<u>P 11,130,655</u>
Financial Liabilities					
<i>At amortized cost:</i>					
Accounts and other payables	10	P 629,255	P 629,255	P 664,416	P 664,416
Bank loans	11	-	-	1,002,261	1,002,261
Lease liability	9.2	<u>1,377,468</u>	<u>1,377,468</u>	<u>1,637,484</u>	<u>1,637,484</u>
		<u>P 2,006,723</u>	<u>P 2,006,723</u>	<u>P 3,304,161</u>	<u>P 3,304,161</u>

See Note 2.4 for a description of the accounting policies for each category of financial instruments including the determination of fair values. 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 2023 and 2022 and does not have existing offsetting and settlement arrangements for its financial instruments. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument will have an option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders.

19.3 Fair Value Measurement and Disclosure

Except for cash, which is classified under Level 1 of the fair value hierarchy under PFRS 13, *Fair Value Measurement*, all other financial instruments are classified under Level 3 wherein inputs are not based on observable data. Management considers that due to the short duration of financial assets and financial liabilities measured at amortized cost, or that the impact of discounting for those long-term financial instruments is not significant, as disclosed in Note 18, their carrying amounts as of March 31, 2023 and 2022 approximate their fair value.

The Company has no financial assets and financial liabilities measured at fair value as of March 31, 2023 and 2022.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 financial instruments in 2023 and 2022.

20. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the statements of financial position.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

21. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding sections is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

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

(a) *Output VAT*

In 2023, the Company declared output VAT totaling P3,700,959 for the sale of goods amounting to P30,841,324. The remaining balance of output VAT amounting to P231,261 as of March 31, 2023 is presented as part of Accounts and Other Payables account in the 2023 statement of financial position.

(b) *Input VAT*

The movements of input VAT in fiscal year 2022 are summarized below.

Balance at beginning of year	P 109,278
Purchase of services and goods	1,825,023
Applied against output VAT	(<u>1,688,939</u>)
Balance at end of year	<u>P 245,362</u>

Input VAT as of the end of the fiscal year is presented as part of Prepayment and Other Current Assets account in the 2023 statement of financial position.

(c) *Taxes on Importation*

In 2022, the total landed cost of the Company's imported inventory for use in business amounted to P12,717,363. This includes customs duties and tariff fees totalling to P1,526,084.

(d) *Excise Tax*

The Company did not have any transactions in fiscal year 2023, which are subject to excise tax.

(e) *Documentary Stamp Tax (DST)*

The Company did not have any transactions in fiscal year 2023, which are subject to documentary stamp tax.

(f) *Taxes and Licenses*

The details of Taxes and Licenses for the fiscal year ended March 31, 2023 as presented in the 2023 statement of comprehensive income are broken down as follows:

Municipal licenses and permit	P 158,616
Community tax certificate	10,500
Annual registration fee	<u>500</u>
	<u>P 169,616</u>

(g) *Withholding Taxes*

Details of total withholding taxes for the fiscal year ended March 31, 2023 are shown below.

Compensation	P 2,218,277
Expanded	<u>21,404</u>
	<u>P 2,239,681</u>

The outstanding liabilities related to withholding taxes amounting to P123,973 is presented under Accounts and Other Payables account in the 2023 statement of financial position. There are no income payments subjected to final withholding taxes in fiscal year 2023.

(h) *Deficiency Tax Assessments and Tax Cases*

As at March 31, 2023, the Company does not have any final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.