FOR SEC FILING

Financial Statements and
Independent Auditors' Report

Zydus Healthcare Philippines, Inc.

December 31, 2023 and 2022

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
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Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zydus Healthcare Philippines, Inc. (the Company), which comprise the statements of financial position as at December 31, 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 material accounting information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 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.

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.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2023 required by the Bureau of Internal Revenue, as disclosed in Note 20 to the financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated in all material respects in relation the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

March 31, 2024

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20th Floor, Tower 1
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6766 Ayala Avenue
1200 Makati City
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Supplemental Statement of Independent Auditors

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

We have audited the financial statements of Zydus Healthcare Philippines, Inc. (the Company) for the year ended December 31, 2023, on which we have rendered the attached report dated March 31, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Company has only one stockholder owning 100 or more shares of the Company's capital stock as of December 31, 2023, as disclosed in Note 16 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
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March 31, 2024

ZYDUS HEALTHCARE PHILIPPINES INC.
(A Wholly Owned Subsidiary of Zydus Lifesciences Limited, India)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes		2023		2022
A S S E T S					
CURRENT ASSETS					
Cash and cash equivalents	4	**P**	**115,963,722**	P	199,332,621
Trade and other receivables	5		**280,830,039**		266,681,212
Inventories - net	6		**73,468,813**		59,885,441
Other current assets	9		**22,442,639**		25,445,954
Total Current Assets			**492,705,213**		551,345,228
NON-CURRENT ASSETS					
Property and equipment - net	7		**16,634,691**		23,945,494
Right-of-use assets - net	8		**26,547,884**		3,153,120
Deferred tax assets - net	15		**12,164,070**		9,629,148
Other non-current asset	9		**1,802,191**		1,616,970
Total Non-current Assets			**57,148,836**		38,344,732
TOTAL ASSETS		**P**	**549,854,049**	P	589,689,960
LIABILITIES AND EQUITY					
CURRENT LIABILITIES					
Trade and other payables	10	**P**	**150,837,725**	P	250,088,915
Lease liabilities	8		**4,456,335**		3,718,118
Total Current Liabilities			**155,294,060**		253,807,033
NON-CURRENT LIABILITIES					
Retirement benefit obligation	14		**15,918,386**		10,997,619
Lease liabilities	8		**20,759,919**		-
Total Non-current Liabilities			**36,678,305**		10,997,619
Total Liabilities			**191,972,365**		264,804,652
EQUITY					
Capital stock	16		**259,483,000**		259,483,000
Additional paid-in capital	2		**720,000**		720,000
Remeasurement of retirement benefit obligation	14	**(**	**3,956,738)**	(	2,231,981)
Retained earnings	2		**101,635,422**		66,914,289
Total Equity			**357,881,684**		324,885,308
TOTAL LIABILITIES AND EQUITY		**P**	**549,854,049**	P	589,689,960

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES INC.
(A Wholly Owned Subsidiary of Zydus Lifesciences Limited, India)
STATEMENTS OF COMPREHENSIVE INCOME
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
SALE OF GOODS	2, 17	**P 820,285,303**	P 682,510,722
COST OF GOODS SOLD	12, 17	**326,171,627**	249,986,311
GROSS PROFIT		**494,113,676**	432,524,411
OTHER OPERATING EXPENSES	12		
Selling expenses		**379,173,187**	328,161,894
Administrative expenses		**77,606,099**	88,234,693
		456,779,286	416,396,587
OPERATING INCOME		**37,334,390**	16,127,824
OTHER INCOME (CHARGES) – Net			
Other income	13	**10,459,435**	6,886,509
Finance charges	13, 14	**(1,831,579)**	(10,178,709)
		8,627,856	(3,292,200)
INCOME BEFORE TAX		**45,962,246**	12,835,624
TAX EXPENSE	15	**11,241,113**	3,409,187
NET PROFIT		**34,721,133**	9,426,437
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit and loss			
Remeasurement gain (loss) on retirement benefit obligation	14	**(2,299,676)**	1,688,502
Tax income (expense) on remeasurement	15	**574,919**	(422,125)
		(1,724,757)	1,266,377
TOTAL COMPREHENSIVE INCOME		**P 32,996,376**	P 10,692,814

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES INC.
(A Wholly Owned Subsidiary of Zydus Lifesciences Limited, India)
STATEMENTS OF CHANGES IN EQUITY
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Capital Stock (see Note 16)	Additional Paid-in Capital (see Note 2)	Remeasurement of Retirement Benefit Obligation (see Note 14)	Retained Earnings (see Note 2)	Equity
Balance at January 1, 2023	P 259,483,000	P 720,000	(P 2,231,981)	P 66,914,289	P 324,885,308
Total comprehensive income (loss) for the year	-	-	(1,724,757)	34,721,133	32,996,376
Balance at December 31, 2023	**P 259,483,000**	**P 720,000**	**(P 3,956,738)**	**P 101,635,422**	**P 357,881,684**
Balance at January 1, 2022	P 259,483,000	P 720,000	(P 3,498,358)	P 57,487,852	P 314,192,494
Total comprehensive income for the year	-	-	1,266,377	9,426,437	10,692,814
Balance at December 31, 2022	P 259,483,000	P 720,000	(P 2,231,981)	P 66,914,289	P 324,885,308

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES INC.
(A Wholly Owned Subsidiary of Zydus Lifesciences Limited, India)
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 45,962,246	P 12,835,624
Adjustments for:			
Depreciation and amortization	12	13,458,617	13,717,444
Interest income	13	(4,988,947)	(1,654,580)
Unrealized foreign currency losses	13	2,960,508	8,987,118
Interest expense	13	1,640,174	1,013,142
Losses on (reversal of) inventory write-down	12, 13	1,326,546	(1,539,414)
Write-off of long outstanding payables	13	(1,117,768)	-
Gain on sale of property and equipment	13	(531,609)	(1,438,840)
Operating profit before working capital changes		58,709,767	31,920,494
Increase in trade and other receivables		(14,148,827)	(60,237,282)
Decrease (increase) in inventories		(14,909,918)	9,764,958
Increase in other current assets		(9,555,139)	(10,112,797)
Increase (decrease) in trade and other payables		(101,090,626)	46,156,256
Increase in retirement benefit obligation		1,849,058	1,956,229
Cash generated from (used in) operations		(79,145,685)	19,447,858
Cash paid for income taxes		(997,789)	(330,916)
Net Cash from (Used in) Operating Activities		(80,143,474)	19,116,942
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	13	4,988,947	1,654,580
Acquisitions of property and equipment	7	(2,236,213)	(6,393,014)
Proceeds from sale of property and equipment	7	554,286	1,438,840
Net Cash From (Used in) Investing Activities		3,307,020	(3,299,594)
CASH FLOWS FROM A FINANCING ACTIVITY			
Repayment of lease liabilities	8	(6,529,141)	(6,347,765)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		(3,304)	597,298
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(83,368,899)	10,066,881
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		199,332,621	189,265,740
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 115,963,722	P 199,332,621

Supplemental Information on Non-cash Financing Activity -

In 2023, the Company recognized right-of-use assets and lease liabilities amounting to P27.3 million and P27.1 million, respectively (see Note 8). There was no similar transaction in 2022.

See Notes to Financial Statements.

ZYDUS HEALTHCARE PHILIPPINES INC.
(A Wholly Owned Subsidiary of Zydus Lifesciences Limited, India)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

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

The Company is a wholly owned subsidiary of Zydus Lifesciences Limited, India (the Parent Company), a listed foreign company organized and existing under the laws of India.

The Company's registered office is located at Units 903 and 904, Ecotower, 32nd Street corner 9th Avenue, Bonifacio Global City, Taguig City. The Parent Company's registered office, which is also its principal place of business, is located at Zydus Corporate Park, Sarkhej-Gandhinagar Highway, Near Vaishnodevi Circle, Ahmedabad - 382481.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Company's Board of Directors (BOD) on March 31, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Financial Statements*

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

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

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

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

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

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

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

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

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

(ii) PAS 8 (Amendments), *Definition of Accounting Estimates.* The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction.* The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Company's financial statements.

(b) Effective in 2023 that is not Relevant to the Company

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Company's financial statements.

(c) Effective Subsequent to 2023 but not Adopted Early

There are amendments and improvements to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Company's financial statements:

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

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

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

(iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

(v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

2.3 Financial Instruments

(a) Financial Assets

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

The Company's financial assets include financial assets at amortized cost.

(ii) Impairment of Financial Assets

The expected credit losses (ECL) on trade and other receivables and contract 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.

However, if the credit risk on a financial asset has not increased significantly since initial recognition, for debt instruments measured at amortized cost (except trade and other receivables where simplified approach is used), the Company measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period, except when there has been a significant increase in credit risk on the financial asset since initial recognition.

(b) Financial Liabilities

Financial liabilities include trade and other payables (except tax-related liabilities) and other non-current liabilities. Refund liabilities are measured using the probability-weighted average amount approach similar to the expected value method under PFRS 15, *Revenue from Contracts with Customers.*

2.4 Inventories

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

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

2.5 Property and Equipment

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

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

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

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

2.6 Revenue and Expense Recognition

Revenue of the Company arises mainly from the sale of pharmaceutical products. The significant judgments used in determining the transaction price are disclosed in Note 3.1(b) while significant judgments used in determining the timing of satisfaction of the following performance obligations are disclosed in Note 3.1 (a). The Company uses the practical expedient in PFRS 15 with respect to non-disclosure of the aggregate amount of the transaction price allocated to unsatisfied or partially satisfied performance obligations as of the end of the reporting period and the explanation of when such amount will be recognized as revenue as the Company's contracts with customers have original expected duration of one year or less.

The Company also assesses its revenue agreements against the specific criteria in order to determine if it is acting as principal or agent. Both the legal form and the substance of the agreement are considered to determine each party's respective roles in the agreement. In all revenue agreements, the Company is acting as a principal. Revenue is recorded at gross when acting as a principal while only net revenues are considered if only an agency service exists.

The Company often enters into transactions involving the selling at wholesale of pharmaceutical products. The Company determines that its revenue from sale of pharmaceutical products shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods [see Note 3.1(a)].

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

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and expenses such costs as incurred.

2.7 Leases – Company as a Lessee

Subsequent to initial recognition, 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 which is 5 years.

2.8 Employee Benefits

The Company provides employment benefits to employees through a defined benefit plan and other employee benefits.

The Company's defined benefit post-employment plan covers all regular full-time employees, but not separately funded as it is not a requirement of PAS 19R, *Employee Benefits*.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

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 of pharmaceutical products shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

(b) *Determination of Transaction Price*

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

The transaction price is considered receivable to the extent of products sold with a right of return. Such variable consideration is estimated based on the method described on Note 3.2(c). Also, the Company uses the practical expedient in PFRS 15 with respect to non-adjustment of the promised amount of consideration for the effects of significant financing component as the Company expects, at contract inception, that the period between when the Company transfers promised goods or services to the customer and payment due date is one year or less.

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

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

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the method to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

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

Details about the ECL on the Company's trade and other receivables are disclosed in Note 18.2.

(d) *Recognition of Provisions and Contingencies*

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

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosure on relevant contingencies are presented in Note 17.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL

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

(b) Estimation of Amounts Involving Right of Return

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

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

Provision for refund is offset against revenue while the carrying amount of refund liability as of December 31, 2023 and 2022 is presented as part of Trade and Other Payables account in the statements of financial position.

(c) Determination of NRV of Inventories

In determining the NRV of inventories, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is continuously subject to changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 6 is affected by price changes in the pharmaceutical industry, the costs incurred necessary to make a sale and product expiration. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next reporting period.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2023 and 2022 will be fully utilized in the subsequent reporting periods. The carrying value of deferred tax assets as of those dates is disclosed in Note 15.

(e) *Impairment of Non-financial Assets*

The Company's property and equipment, right-of-use assets and other non-financial assets are subject to impairment testing.

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.8). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There are no impairment losses recognized on the Company's property and equipment, right-of-use of asset and other non-financial assets in 2023 and 2022 based on management's evaluation (see Notes 7, 8 and 9).

(f) *Valuation of Post-employment Defined Benefit Obligation*

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

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

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

4. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	2023	2022
Cash on hand	**P 2,173,250**	P 2,042,750
Cash in bank	**30,790,472**	41,584,693
Short-term placements	**83,000,000**	155,705,178
	P 115,963,722	P 199,332,621

Cash on hand pertains to petty cash, tactical and revolving funds maintained by the Company for use in day-to-day operations. Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity period of 33 days and 90 days in 2023 and 2022, respectively, and earn effective interest of 5.00% in 2023 and 3.90% to 4.25% in 2022.

Interest income earned from the Company's cash in bank and short-term placements amounted to P5.0 million and P1.7 million in 2023 and 2022, respectively, and is presented as part of Other Income (Charges) in the statements of comprehensive income (see Note 13). The related foreign currency gains in 2023 and foreign currency losses in 2022 is also recognized as part of Other Income (Charges) in the statements of comprehensive income (see Note 13).

5. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2023**	2022
Trade receivables	18.2	**P 275,744,175**	P 266,214,227
Employee advances		**4,781,531**	466,985
Interest receivable		**304,333**	-
		P 280,830,039	P 266,681,212

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

Employee advances consists mostly of cash advances of employees to defray various expenses incurred in operations and are liquidated within 30 days from the date of activity. It also includes company loans and advances for Social Security System maternity benefits.

All of the Company's trade and other receivables have been assessed for impairment. However, no allowance for credit losses was recognized as of December 31, 2023 and 2022. This assessment is undertaken each reporting period based on the Company's established ECL model as fully disclosed in Note 18.2(b).

6. INVENTORIES

Inventories as of December 31, 2023 and 2022 measured at cost and at NRV are summarized below.

	Note	**2023**	2022
At Cost –			
Products for sale	12.1	**P 73,468,813**	P 59,885,441
At NRV:			
Products and promotional samples		**2,801,676**	1,475,130
Allowance for write-down to NRV		**(2,801,676)**	(1,475,130)
		P 73,468,813	P 59,885,441

A reconciliation of the allowance for inventory write-down at the beginning and end of 2023 and 2022 is shown below.

	Note	2023	2022
Balance at beginning of year		**P 1,475,130**	P 3,014,544
Losses on inventory write-down	12.2	**1,326,546**	-
Reversal of inventory write-down	13	**-**	(1,539,414)
Balance at end of year		**P 2,801,676**	P 1,475,130

Losses on inventory write-down is presented as part of Administrative Expenses account in the 2023 statement of comprehensive income. Meanwhile, in 2022, the initial estimated loss on write-down is higher than the NRV of certain inventories, hence, inventory write-down was reversed and presented as part of Other Income (Charges) account in the 2022 statement of comprehensive income. The allowance for write-down to NRV represents the costs of inventories that are expired and expiring in six months as at December 31, 2023 and 2022.

In 2023 and 2022, certain expired inventories with total cost of P14.1 million and P22.4 million, respectively, were destroyed under the supervision of duly authorized representatives of the Bureau of Internal Revenue (BIR) and the Department of Environment and Natural Resources. The said loss on destruction of expired inventories is presented as Write-off of inventories under the Administrative Expenses account in the statements of comprehensive income (see Note 12.2).

An analysis of the inventories charged to Cost of Goods Sold for the years ended December 31, 2023 and 2022 is presented in Note 12.1.

7. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2023 and 2022 are as follows:

	Transportation Equipment	**Office Furniture, Fixtures and Equipment**	**Computer Equipment and Software**	**Total**
December 31, 2023				
Cost	P 38,957,143	P 3,085,373	P 9,817,947	P 51,860,463
Accumulated depreciation and amortization	(24,565,863)	(2,795,262)	(7,864,647)	(35,225,772)
Net carrying amount	**P 14,391,280**	**P 290,111**	**P 1,953,300**	**P 16,634,691**
December 31, 2022				
Cost	P 40,457,143	P 2,895,373	P 7,812,583	P 51,165,099
Accumulated depreciation and amortization	(18,315,327)	(2,273,069)	(6,631,209)	(27,219,605)
Net carrying amount	P 22,141,816	P 622,304	P 1,181,374	P 23,945,494
January 1, 2022				
Cost	P 38,941,963	P 2,873,949	P 7,568,673	P 49,384,585
Accumulated depreciation and amortization	(16,095,595)	(1,741,657)	(5,682,757)	(23,520,009)
Net carrying amount	P 22,846,368	P 1,132,292	P 1,885,916	P 25,864,576

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

	Transportation Equipment	Office Furniture, Fixtures and Equipment	Computer Equipment and Software	Total
Balance at January 1, 2023, net of accumulated depreciation and amortization	P 22,141,816	P 622,304	P 1,181,374	P 23,945,494
Additions	-	190,000	2,046,213	2,236,213
Disposals	-	-	(22,677)	(22,677)
Depreciation and amortization charges for the year	(7,750,536)	(522,193)	(1,251,610)	(9,524,339)
Balance at December 31, 2023, net of accumulated depreciation and amortization	**P 14,391,280**	**P 290,111**	**P 1,953,300**	**P 16,634,691**
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 22,846,368	P 1,132,292	P 1,885,916	P 25,864,576
Additions	6,127,680	21,424	243,910	6,393,014
Depreciation and amortization charges for the year	(6,832,232)	(531,412)	(948,452)	(8,312,096)
Balance at December 31, 2022, net of accumulated depreciation and amortization	P 22,141,816	P 622,304	P 1,181,374	P 23,945,494

In 2023 and 2022, the Company sold certain fully depreciated transportation equipment with cost amounting to P1.5 million and P4.6 million, respectively. The Company recognized a gain on sale amounting to P0.5 million and P1.4 million in 2023 and 2022, respectively, which is presented as part of Other Income (Charges) account in the statements of comprehensive income (see Note 13). In 2023, the Company also sold certain computer equipment with net book value of P22.7 thousand and recognized a gain on sale amounting to P67.3 thousand which is presented as part of Other Income (Charges) account in the 2023 statement of comprehensive income (see Note 13.)

As of December 31, 2023 and 2022, the cost of the Company's fully-depreciated property and equipment that are still in use amounted to P13.5 million and P6.9 million, respectively.

8. LEASES

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

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

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

	2023	2022
Number of right-of-use assets leased:	**2**	2
Remaining lease term:	**4.6 years**	0.6 years
Number of leases with extension and termination options:	**2**	2

The Company's leases have no option to purchase.

8.1 Right-of-use Assets

The gross carrying amounts and accumulated amortization of the Company's right-of-use assets at the beginning and end of 2023 and 2022 are as follows:

	Office	**Parking**	**Total**
December 31, 2023			
Cost			
Balance at beginning of year	P 24,425,827	P 348,682	P 24,774,509
Additions	26,916,353	412,689	27,329,042
Disposal of the previous lease	(22,816,514)	(325,709)	(23,142,223)
Balance at end of year	28,525,666	435,662	28,961,328
Accumulated amortization			
Balance at beginning of year	21,317,084	304,305	21,621,389
Disposal of the previous lease	(22,816,514)	(325,709)	(23,142,223)
Depreciation for the year	3,876,568	57,710	3,934,278
Balance at end of year	2,377,138	36,306	2,413,444
Net carrying amount	**P 26,148,528**	**P 399,356**	**P 26,547,884**
December 31, 2022			
Cost	P 24,425,827	P 348,682	P 24,774,509
Accumulated amortization			
Balance at beginning of year	15,987,813	228,228	16,216,041
Depreciation for the year	5,329,271	76,077	5,405,348
Balance at end of year	21,317,084	304,305	21,621,389
Net carrying amount	P 3,108,743	P 44,377	P 3,153,120

8.2 Lease Liabilities

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

	2023	2022
Current	**P 4,456,335**	P 3,718,118
Non-current	**20,759,919**	-
	P 25,216,254	P 3,718,118

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

	Office		Parking		Total
December 31, 2023					
Lease liabilities	**P** **24,835,093**		**P** **381,161**		**P** **25,216,254**
Lease termination options not recognized as a liability	**11,073,033**		**-**		**11,073,033**
Historical rate of exercise of termination options	**0%**		**0%**		
December 31, 2022					
Lease liabilities	P 3,665,789		P 52,329		P 3,718,118
Lease termination options not recognized as a liability	1,862,419		22,973		1,885,392
Historical rate of exercise of termination options	0%		0%		

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

As at December 31, 2023 and 2022, the Company has no other lease commitments. The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31 is summarized below:

	Cost	Finance Charges	Net Present Value
December 31, 2023			
Within one year	P 6,531,055	(P 2,074,720)	P 4,456,335
One to two years	6,535,746	(1,659,394)	4,876,352
Two to three years	6,674,771	(1,202,916)	5,471,855
Three to four years	7,008,507	(679,346)	6,329,161
Four to five years	4,205,114	(122,563)	4,082,551
Balance at end of year	**P 30,955,193**	**(P 5,738,939)**	**P 25,216,254**
December 31, 2022			
Within one year	P 3,808,666	(P 90,548)	P 3,718,118

8.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P6.5 million and P6.3 million in 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P0.9 million and P0.5 million in 2023 and 2022, respectively, and is presented as part of Finance Charges under Other Income (Charges) in the statements of comprehensive income (see Note 13).

9. OTHER ASSETS

This account is composed of the following:

		2023		2022
Current:				
Creditable withholding taxes	**P**	**11,693,400**	P	3,474,528
Prepaid expenses		**7,709,659**		6,085,677
Prepaid tax		**2,341,596**		14,544,925
Construction deposit		**357,625**		357,625
Deferred input VAT		**340,359**		983,199
	P	**22,442,639**	P	25,445,954
Non-current –				
Security deposit	**P**	**1,802,191**	P	1,616,970

Prepaid tax pertains to overpayments made with the BIR which can be applied to income tax due for the succeeding periods.

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

10. TRADE AND OTHER PAYABLES

This account is composed of the following:

	Notes		2023		2022
Trade payables:					
Related party	11.1	**P**	**42,241,162**	P	172,415,827
Third parties	17.1		**43,006,138**		36,215,580
Accrued expenses			**61,365,794**		34,968,776
Refund liability			**1,596,867**		1,740,946
Output VAT			**158,261**		1,049,012
Others			**2,469,053**		3,698,774
		P	**150,837,725**	P	250,088,915

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

In 2023, the Company written-off certain long outstanding payable amounting to P1.1 million and is presented as part of Other income in the 2023 statement of comprehensive income. There was no similar transaction in 2022.

11. RELATED PARTY TRANSACTIONS

The Company's related parties include its parent company, key management personnel and others as described in Note 2.15. Its transactions with related parties are presented below.

	Notes	2023 Amount of Transaction	2023 Outstanding Balance	2022 Amount of Transaction	2022 Outstanding Balance
Parent Company:					
Purchase of goods	10, 11.1, 12.1	**P 305,900,586**	**P 38,538,174**	P 218,007,405	P 139,625,144
Reimbursable charges	10, 11.1	**(29,087,245)**	**3,703,438**	(27,340,755)	32,790,683
Key Management Personnel –					
Compensation	11.2, 12.2	**13,576,112**	**-**	12,187,044	-
Retainer's fee	11.2, 12.2	**120,000**	**-**	110,000	-

11.1 Purchase of Goods

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

In 2016, the Company entered into a Supply and Distribution Agreement (the Agreement) with the parent company. As one of its provisions, the Agreement states that the parent company shall reimburse the Company for costs incurred for manufacturing, packaging and quality control defects and product recalls. Additionally, if the Company earns more than a certain threshold on profit before tax, the excess in the threshold will be a transfer price adjustment payable to the parent company. In 2023, the Company was able to surpass the threshold and recognized reimbursable charges as part of Cost of Goods Sold in the 2023 statement of comprehensive income (see Note 12.1). In 2022, no reimbursable charges were recognized since the Company did not surpass the threshold. The outstanding payable from this transaction is presented as part of Trade payables – related party under Trade and Other Payables account in the statements of financial position (see Note 10). Such payable is noninterest-bearing, unsecured and payable in cash upon demand.

11.2 Key Management Personnel

The total compensation of key management personnel is in the form of short-term and post-employment benefits. Details are as indicated below.

		2023		2022
Short term employee benefits	P	12,744,982	P	11,534,594
Post-employment benefits		831,130		652,450
	P	13,576,112	P	12,187,044

The company also pays monthly retainer's fee to its Corporate Secretary recognized as part of Outside Services in the statements of comprehensive income (see Note 12.2).

12. COSTS AND OPERATING EXPENSES BY NATURE

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

12.1 Cost of Goods Sold

The components of Cost of Goods Sold for the years ended December 31, 2023 and 2022 are analyzed as follows:

	Notes		2023		2022
Products for sale at beginning of year	6	P	59,885,441	P	68,110,985
Purchases:					
Imported	11.1		305,900,586		218,007,405
Local	17.1		51,878,711		50,486,085
Sample goods		(	24,337,574)	(	20,801,725)
Custom duties and shipment processing charges			17,693,762		14,953,486
Write-off of inventories	6	(	14,126,852)	(	22,423,898)
Reimbursable charges	11.1		4,072,912		-
Reversal of (losses on) inventory write-down	6, 12.2 13	(	1,326,546)		1,539,414
Total goods available for sale			399,640,440		309,871,752
Products for sale at end of year	6	(	73,468,813)	(	59,885,441)
		P	326,171,627	P	249,986,311

12.2 Selling and Administrative Expenses

The other operating expenses are presented by nature below.

	Notes	2023	2022
Promotions and marketing	11.1	**P 245,714,991**	P 200,166,393
Salaries, wages, and other benefits	11.2, 14.1	**121,833,470**	114,778,752
Outside services	11.2	**17,042,031**	20,029,694
Write-off of inventories	6	**14,126,852**	22,423,898
Depreciation and amortization	7, 8	**13,458,617**	13,717,444
Transportation and travel		**10,391,857**	9,938,954
Input VAT allocated to VAT-exempt sales		**9,405,197**	8,515,581
Pallet and other charges		**7,529,667**	6,630,291
Communication and utilities		**6,010,781**	8,308,602
Repairs and maintenance		**3,364,486**	2,821,874
Taxes and licenses		**2,302,569**	1,957,469
Losses on inventory write-down	6, 13	**1,326,546**	-
Dues and membership		**1,256,307**	1,196,480
Insurance		**524,054**	1,058,010
Supplies		**60,086**	92,099
Miscellaneous		**2,431,775**	4,761,046
		P 456,779,286	P 416,396,587

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

	2023	2022
Selling expenses	**P 379,173,187**	P 328,161,894
Administrative expenses	**77,606,099**	88,234,693
	P 456,779,286	P 416,396,587

Incentives amounting to P22.5 million and P20.5 million in 2023 and 2022, respectively, shown as part of Promotions and marketing, are subjected to withholding tax on compensation together with salaries, wages, and other benefits.

Senior citizen discount amounting to P57.8 million and P45.8 million in 2023 and 2022, respectively, are presented as part of Promotions and marketing.

In 2022, miscellaneous expenses includes payment for deficiency taxes amounting to P1.13 million. There was no similar transaction during 2023.

13. OTHER INCOME (CHARGES)

This account pertains to the following:

	Notes	2023	2022
Other income:			
Interest income	4	**P 4,988,947**	P 1,654,580
Reversal of refund liability		**1,740,946**	2,009,299
Foreign currency gain	4	**1,612,542**	-
Written-off long outstanding payables		**1,117,768**	-
Gain on sale of property and equipment	7	**531,609**	1,438,840
Reversal of inventory write-down	6, 12.1	**-**	1,539,414
Others		**467,623**	244,376
		P 10,459,435	P 6,886,509
Finance charges:			
Interest expense	8.3, 14.2	**P 1,640,174**	P 1,013,142
Bank charges		**191,405**	178,449
Foreign currency losses	4	**-**	8,987,118
		P 1,831,579	P 10,178,709

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Details of salaries and employee benefits are presented below.

	Note	2023	2022
Short-term employee benefits		**P 119,984,412**	P 112,822,523
Post-employment defined benefit		**1,849,058**	1,956,229
	12.2	**P 121,833,470**	P 114,778,752

14.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

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

The company's current practice is to convert unused vacation and sick leave days to cash equivalents, up to a maximum of five days each per year.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations will be made annually to update the retirement benefit costs. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2023 and 2022.

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

	2023	2022
Balance at beginning of year	**P 10,997,619**	P 10,221,865
Current service cost	**1,849,058**	1,956,229
Interest cost	**772,033**	508,027
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**1,627,014**	(3,014,818)
Experience adjustments	**672,662**	1,326,316
Balance at end of year	**P 15,918,386**	P 10,997,619

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

	2023	2022
Reported in profit or loss:		
Current service cost	**P 1,849,058**	P 1,956,229
Interest cost	**772,033**	508,027
	P 2,621,091	P 2,464,256
Reported in other comprehensive income (loss):		
Actuarial gains (losses) arising from:		
Changes in financial assumption	**(P 1,627,014)**	P 3,014,818
Experience adjustments	**(672,662)**	(1,326,316)
	(P 2,299,676)	P 1,688,502

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

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

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

	2023	2022
Discount rates	**6.03%**	7.02%
Expected rate of salary increases	**5.00%**	5.00%

Assumptions regarding the future mortality are based on published statistics and mortality tables. The valuation results are based on the employee data as of the valuation dates as provided by the Company to the actuary. The discount rate assumption is based on the BVAL rate as of December 31, 2023 and 2022 considering the average year of remaining working life of the employees. The average remaining working life of employees retiring at the age of 60 is 23.6 years and 23.3 years as of December 31, 2023 and 2022, respectively.

(c) Risks Associated with the Retirement Plan

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

(i) Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

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

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2023			
Discount rate	**+/-100 bps**	**(P 1,642,371)**	**P 1,882,124**
Salary increase rate	**+/-100 bps**	**1,882,843**	**(1,681,367)**
December 31, 2022			
Discount rate	+/-100 bps	(P 1,185,697)	P 1,359,967
Salary increase rate	+/-100 bps	1,375,680	(1,222,550)

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

(ii) Funding Arrangements and Expected Contributions

The plan is unfunded based on the actuarial valuation as of December 31, 2023 and 2022, therefore, benefit claims under the plan are paid directly by the Company when they become due.

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

	2023	2022
More than one year to five years	**P 2,012,460**	P 1,998,983
More than five years to ten years	**27,857,538**	14,551,323
More than ten years to 15 years	**21,063,782**	27,956,283
More than 15 years to 20 years	**28,795,189**	23,074,303
More than 20 years	**18,226,564**	18,942,229
	P 97,955,533	P 86,523,121

The weighted average duration of the defined benefit obligation is 15 years at the end of the reporting period.

As of December 31, 2023 and 2022, the Company has not yet determined how much and when to fund the post-employment defined benefit plan.

15. TAXES

The components of tax expense reported in profit or loss and other comprehensive income are as follows:

	2023	2022
Reported in profit or loss:		
Current tax expense:		
Regular corporate income tax (RCIT) at 25%	**P 12,203,327**	P 5,516,953
Final tax at 20%	**997,789**	330,916
	13,201,116	5,847,869
Deferred tax income arising from:		
Origination and reversal of temporary differences	**(1,960,003)**	(2,438,682)
	P 11,241,113	P 3,409,187

	2023	2022
Reported in other comprehensive income (loss) –		
Deferred tax expense (income) arising from:		
Origination and reversal of temporary differences	**P 574,919**	(P 422,125)

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

	2023	2022
Tax on pretax income at 25%	**P 11,490,562**	P 3,208,906
Adjustment for income subjected to lower tax rates	**(249,449)**	(82,729)
Tax effect of non-deductible	**-**	283,010
	P 11,241,113	P 3,409,187

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

	Statements of Financial Position		Statements of Comprehensive Income			
			Profit or Loss		Other Comprehensive Income	
	2023	2022	**2023**	2022	**2023**	2022
Deferred tax assets:						
Accrued expenses	**P 6,677,616**	P 3,927,034	**P 2,750,581**	(P 174,397)	**P -**	P -
Lease liability	**6,304,064**	929,530	**(1,415,250)**	(1,460,662)	**-**	-
Retirement benefit obligation	**3,979,597**	2,749,405	**655,273**	616,064	**574,919**	(422,125)
Unrealized foreign exchange losses	**740,127**	2,246,780	**(1,506,653)**	1,609,484	**-**	-
Inventory losses	**700,419**	368,783	**331,637**	(384,853)	**-**	-
Refund liability	**399,217**	435,237	**(36,020)**	(67,088)	**-**	-
MCIT	**-**	-	**-**	(1,661,345)	**-**	-
	18,801,040	10,656,769	**779,568**	(1,522,797)	**574,919**	(422,125)
Deferred tax liabilities:						
Right-of-use assets	**(6,636,970)**	(788,280)	**941,094**	1,351,337	**-**	-
Capitalized custom duties	**-**	(239,341)	**239,341**	2,610,142	**-**	-
	(6,636,970)	(1,027,621)	**1,180,435**	3,961,479	**-**	-
Deferred tax assets – net	**P 12,164,070**	P 9,629,148				
Deferred tax income (expense) – net			**P 1,960,003**	P 2,438,682	**P 574,919**	(P 422,125)

In 2023 and 2022, the Company is subject to the MCIT which is computed at 1.5% and 1% of gross income, respectively, net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. No MCIT was reported in 2023 and 2022 as the RCIT was higher than MCIT in both years.

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

16. EQUITY

16.1 Capital Stock

In 2023 and 2022, the Company's capital stock consists of:

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

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

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

16.2 Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to stockholders.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods as at December 31, 2023 and 2022 are summarized below:

	2023	2022
Total liabilities	**P 191,972,365**	P 264,804,652
Total equity	**357,881,684**	324,885,308
Total liabilities-to-total equity ratio	**0.54 : 1.00**	0.82 : 1.00

As at December 31, 2023 and 2022, the Company is not subject to any externally imposed capital requirements.

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

17. COMMITMENTS AND CONTINGENCIES

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

17.1 Distribution Agreement and Sales and Purchase Agreement

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

The Company normally enters into sales and purchase agreements with local suppliers for a period ranging from two to five years, unless cancelled or terminated by either party. Under this agreement, the counterparties shall purchase from and sell goods to the company or from any other suppliers that the company may designate in writing and sell these goods under its own name for its own account. On the other hand, the Company shall supply goods to and purchase goods from the counterparties in accordance with the terms and conditions agreed upon.

The total sales to these local companies are presented as part of Sale of Goods in the statements of comprehensive income. Also, the total purchases from local companies are presented as part of Cost of Goods Sold in the statements of comprehensive income (see Note 12.1). The outstanding receivable from the local companies as of December 31, 2023 and 2022 is shown as part of Trade receivables under Trade and Other Receivables account in the statements of financial position (see Note 5). Also, the outstanding payable to local companies for the purchased goods as of December 31, 2023 and 2022 is shown as part of Trade payables – third parties under Trade and Other Payables account in the statements of financial position (see Note 10).

17.2 Others

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

18. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

18.1 Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from liability incurred relating to purchases from its parent company and United States (U.S.) dollar-denominated cash. Since the significant exposure to currency changes arise from transactions with its parent company, the Company manages its risk in close coordination with its parent company.

Foreign currency-denominated financial assets and financial liabilities as of December 31, 2023 and 2022, translated into U.S. dollar at the closing rate are as follows:

	2023	2022
Financial assets	**P 5,856,688**	P 5,594,599
Financial liabilities	**(43,510,355)**	(172,717,450)
Short-term exposure	**(P 37,653,667)**	(P 167,122,851)

If the Philippine peso had strengthened by 16.0% and 15.9% against the U.S. dollar in 2023 and 2022, income before tax would have increased by P6.0 million and P26.6 million, respectively. On the other hand, if the Philippine peso had weakened by the same percentages, with all other variables held constant, income before tax in 2023 and 2022 would have decreased by the same amounts, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of the reporting period.

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

18.2 Credit Risk

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

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

	Notes	2023	2022
Cash and cash equivalents	4	**P 115,963,722**	P 199,332,621
Trade and other receivables	5	**276,048,508**	266,214,227
Construction deposit	9	**357,625**	357,625
Security deposit	9	**1,802,191**	1,616,970
		P 394,172,046	P 467,521,443

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

(a) Cash and cash equivalents

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

(b) Trade and other receivables

In respect to trade and other receivables, the Company is exposed to a significant credit risk exposure to its distributors which account to 100% of the Company's sales. Ultimately, however, the Company is significantly exposed to credit risk to a counterparty transacting with one of their distributors which accounts for 76% and 70% as of December 31, 2023 and 2022, respectively, of the total credit risk exposure on trade and other receivables. Despite the significant concentration of risk, the Company still considers the credit risk for trade and other receivables negligible since the receivable in question does not have a history of default.

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables. The expected loss rates of receivables (other than receivables from government hospitals) are based on the monthly aging of receivables of the Company over a period of 36 months before December 31, 2023 and 2022, respectively. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the retail price index and inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The expected loss rates for receivables from government hospitals and major customers are based on credit rating of the Philippines from Standard & Poor's and separate credit risk rating, respectively.

The Company's trade receivable that are past due but not impaired amounted to P6.1 million and P9.6 million as of December 31, 2023 and 2022, respectively. The Company did not recognize allowance for credit losses in 2023 and 2022 since the amounts involved are assessed to be immaterial.

(c) Construction and security deposit

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

18.3 Liquidity Risk

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

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

As at December 31, 2023 and 2022, the Company's financial liabilities (except lease liabilities – see Note 8.2) with contractual maturities of less than one year pertain to trade and other payables amounting to P147.1 million and P244.5 million, respectively (see Note 10).

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

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

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position as of December 31 are shown below. Management determined that due to the short duration of its financial assets and financial liabilities, their carrying amounts as of December 31, 2023 and 2022 approximate their fair values.

See Note 2.3 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 18.

19.2 Offsetting of Financial Assets and Financial Liabilities

The Company has not set-off financial instruments in 2023 and 2022 and does not have relevant offsetting arrangement. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle such amount on a net basis in the event of default on the other party through approval by the other party's BOD and stockholders or upon instruction by the parent company.

19.3 Fair Value Hierarchy

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

The fair value hierarchy has the following levels:

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

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

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

The Company has no financial instruments measured at fair value as of December 31, 2023 and 2022.

All financial instruments carried at amortized cost (see Note 19.1) as of December 31, 2023 and 2022 are classified at Level 3 in the fair value hierarchy, except for Cash which is classified at Level 1. There were no transfers between Level 1 and 3 in both years presented.

20. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

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

The information on taxes, duties and license fees paid or accrued during the taxable year required under R.R. No. 15-2010 is presented in the succeeding pages:

(a) Output VAT

In 2023, the Company reported output VAT as follows:

	Tax Base	Output VAT
Sale of Goods		
Taxable sales	P 329,709,565	P 39,565,148
Exempt sales	492,172,605	-
	821,882,170	39,565,148
Sale of transportation equipment	464,286	55,714
Total sales	**P 822,346,456**	**P 39,620,862**

Total sales of goods	P 821,882,170
Less: provision for sales return	(1,596,867)
	P 820,285,303

The Company's outstanding output VAT is reported as part of Trade and Other Payables account in the 2023 statement of financial position.

(b) Input VAT

The movements in input VAT in 2023 are summarized below.

Balance at beginning of year	P -
Goods for resale	20,239,933
Services lodged under other accounts	12,887,508
Goods other than for resale	2,304,571
Capital goods subject to amortization	609,577
Capital goods not subject to amortization	392,118
Applied against output VAT	(26,785,149)
Allocated to VAT-exempt sales	(9,648,558)
Balance at end of year	**P -**

(c) Taxes on Importation

Customs duties and tariff fees totaling P17,693,762 were paid in 2023 for all of the Company's imported inventories from its parent company.

(d) Excise Tax

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

(e) Documentary Stamp Tax (DST)

DST amounting to P152,704 was paid in 2023 related to the purchase and renewal of the Company's office and car insurances.

(f) *Taxes and Licenses*

The details of taxes and licenses paid in 2023 are as follows:

Business permits	P	2,095,359
DST		152,704
Real property tax		43,506
Community tax certificate		10,500
Registration		500
	P	**2,302,569**

(g) *Withholding Taxes*

The details of total withholding taxes in 2023 are shown below.

Compensation	P	13,850,592
Expanded		4,259,679
Final		138,693
	P	**18,248,964**

(h) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2023, the Company did not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR.