

**PITC Pharma, Inc**  
**Annual Audit Report for CY 2012**

**EXECUTIVE SUMMARY**

**A. INTRODUCTION**

PITC Pharma, Inc. (the Corporation) was initially incorporated in the Philippines on July 13, 1981 as Producers Venture Capital Corporation (PVCC). PVCC was 60 percent owned by Prime Media Holdings, Inc. and 40 percent owned by the National Development Company (NDC). On October 19, 2005, NDC bought out Prime Media's 60 percent ownership, which made PVCC 100 percent owned by NDC.

On November 9, 2005, the Securities and Exchange Commission (SEC) approved the change in PVCC's corporate name from Producers Venture Capital Corporation to PITC Pharma, Inc., and its primary purpose from that of a financing company to a pharmaceutical firm engaged in the business of research, development, production, manufacture, packaging, sale and/or distribution of pharmaceutical products and/or investment and/or management of investments in pharmaceuticals and related commercial ventures.

On September 12, 2006, the SEC approved the increase in the Authorized Capital Stock of the Corporation from P10 million to P100 million, divided into one million (1,000,000) common shares at a par value of P100 per share. The infusion by Philippine International Trading Corporation (PITC) of P22.5 million in common shares, made the Corporation 60 percent owned by PITC. With the issuance of Executive Order (EO) 442, PITC was designated as the lead coordinating agency to make quality medicine available, affordable, and accessible to the greater masses of Filipinos. The Corporation was created to exclusively take the lead in implementing the government's Half-Priced Medicines Program under EO 442.

Effective November 2008, PPI was designated as the central procurement arm for all government agencies for the importation of drugs and medicines, except for specific programs and instances allowed by the Department of Health. This is embodied in Section 1 Rule 16 Chapter III of the Implementing Rules and Regulations (IRR) of Republic Act No. 9502 otherwise known as the Cheaper Medicines Law. Likewise, the IRR's Chapter XI Rule 58 gives authority to PPI to establish a common facility for pooled procurement in compliance with RA 9184.

## B. FINANCIAL HIGHLIGHTS

The Corporation's financial condition and results of operations are presented below:

|                             | 2012               |  | 2011               |
|-----------------------------|--------------------|--|--------------------|
|                             |                    |  | (as restated)      |
| <b>Financial Condition</b>  |                    |  |                    |
| Total Assets                | 46,093,630         |  | 72,042,330         |
| Total Liabilities           | 358,201,029        |  | 343,669,255        |
| <b>Capital Deficiency</b>   | <b>312,107,399</b> |  | <b>271,626,925</b> |
| <b>Result of Operations</b> |                    |  |                    |
| Gross Profit                | 12,068,397         |  | 39,924,182         |
| Total Expenses              | 52,548,871         |  | 65,947,845         |
| <b>Net Loss</b>             | <b>40,480,474</b>  |  | <b>26,023,663</b>  |

## C. SCOPE OF AUDIT

The audit covered the accounts and operations of the Corporation for the calendar year 2012. It aimed to ascertain the fairness of the presentation of the financial statements. Our audit was also made to assess the propriety of the financial transactions and compliance of the Corporation with applicable laws, rules and regulations.

## D. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered an unmodified opinion on the financial statements of the Corporation.

## E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

Below is a summary of significant audit observations and recommendations with details discussed in Part II-A of this Report:

- 1. Insufficient capital and continuous losses from start of operation in 2006 to the current period cast doubt on the viability of the Corporation to continue operations and carry out its mandated functions.**

We recommended that Management:

- a. Conduct an assessment of the conditions affecting the ability of PPI to continue as a going-concern entity and identify the uncertainties that beset the Corporation.

- b. Require the preparation of accomplishment/performance reports from each department so that Management will be able to evaluate strengths and weaknesses of the Agency and initiate measures to improve financial condition and operational performance.
- c. Establish business plans and strategies to address the uncertainties and identify areas in the operations for streamlining, to increase sales, reduce costs and minimize losses.
- d. Make representations with NDC, for rescheduling of loan repayment/restructuring of loan and with PITC and other concerned government agencies for additional capital and/or subsidy, for PPI to continue its operations and carry out its mandated functions.
- e. Intensify collection and initiate more effective and efficient strategies to recover trade receivables which have been uncollected for a long period of time. If necessary, take legal action against the debtors.

**F. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

There was no implementation of the audit recommendations embodied in the 2011 Annual Audit Report. Details are presented in Part II-B of this Report.

**G. COA-PPI Audit Team**

PPI was audited by Team 5 under Audit Group F – Trading and Promotion Group headed by **Ms. Henedina R. Otadoy**, Supervising Auditor. The Audit Team is composed of the following personnel:

| <b>Name</b>         | <b>Position</b>  | <b>Designation</b> |
|---------------------|------------------|--------------------|
| Maribelle B. Bayta  | State Auditor IV | Audit Team Leader  |
| Ignacia P. Taroy    | State Auditor II | Audit Team Member  |
| Thelma C. Agapay    | State Auditor II | Audit Team Member  |
| Nephtali D. Gonzaga | State Auditor I  | Audit Team Member  |