

**PITC PHARMA, INC.**  
(A Subsidiary of the Philippine International Trading Corporation)  
**NOTES TO FINANCIAL STATEMENTS**  
(All amounts in Philippine Pesos unless otherwise stated)

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**1. AGENCY BACKGROUND**

PITC Pharma, Inc. (Company) was initially incorporated in the Philippines on July 13, 1981 as Producers Venture Capital Corporation (PVCC). PVCC was 60 per cent owned by Prime Media Holdings, Inc. and 40 per cent owned by the National Development Company (NDC). On October 19, 2005, NDC bought out Prime Media's 60 per cent ownership, which made PVCC 100 per cent 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 Company 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 Company 60 per cent 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 Company was created to exclusively take the lead in implementing the government's Half-Priced Medicines Program under EO 442.

Pursuant to Section 1 Rule 16 Chapter III of the Implementing Rules and Regulations of Republic Act 9502, otherwise known as the Cheaper Medicines Bill Law, PITC Pharma Inc. was mandated to undertake the centralized importation of pharmaceutical products for the government.

The License to Operate as a Drug Distributor/ Importer/ Wholesaler was granted to the Company on October 16, 2006.

The principal office address of the Company is at 2<sup>nd</sup> floor, NDC Building, 116 Tordesillas Street, Salcedo Village, Makati City.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of Financial Statements Preparation and Statement of Compliance**

The financial statements are presented in Philippine peso, the Company's functional and presentation currency, and all values are rounded to the nearest peso, except when otherwise indicated.

The accompanying financial statements are prepared and presented in accordance with State accounting principles.

**b. Cash and Cash Equivalents**

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturity dates of three months or less from the date of acquisition.

**c. Accounts Receivable - Trade**

Trade receivables are recognized at their face value less allowance for doubtful accounts.

Allowance for doubtful accounts is provided for potentially uncollectible receivables specifically identified, principally based on the following criteria: accounts with pending legal investigation and clients who have issued bouncing checks, uncollectible accounts aged three years and above (100 per cent), uncollectible Commercial and Territorial Wholesalers Account since 2007 to 2008 (50 per cent) and Government Accounts uncollectible since 2007 to 2008 (five per cent).

**d. Prepaid Expenses**

Prepayments are amortized over the period of coverage. The account also includes deferred charges from the payment of 2006 Minimum Corporate Income Tax.

**e. Inventories**

Merchandise Inventory is stated at the lower of cost or net realizable value. Cost includes acquisition cost plus all incidental expenses incurred in acquiring the goods and in bringing them to their present location and condition. Costs are assigned to inventories using the weighted average method.

The provision of allowance for inventory loss is based on the expiration dates of stocks counted during the year-end physical count. Stocks expiring on or before the end of the current year are considered an outright expense and, therefore, charged against the inventory account. A 50 per cent allowance is provided for medicines that will expire from January to June of the succeeding year and 25 per cent for medicines that expire at the end of the same year.

Accountable Forms and Other Supplies Inventory are valued at cost.

**f. Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets in accordance with COA Circular No. 2003-007. In the case of leasehold improvements, the assets are depreciated over the period of the lease or service life of the improvement whichever comes first.

**g. Income and Expenses**

Income and expenses are recorded on accrual basis.

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**3. CASH AND CASH EQUIVALENTS**

The account is composed of the following:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Cash on hand and in banks	7,056,104	20,974,092	10,799,523
Money market placements	20,169,349	38,495,058	26,168,377
<b>Total Cash and cash equivalents</b>	<b>27,225,453</b>	<b>59,469,150</b>	<b>36,967,900</b>

Cash on hand includes cash with the Cash collecting officer.

Money market placements are short-term, highly liquid peso investments with Land Bank of the Philippines with original maturities of three months or less.

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**4. ACCOUNTS RECEIVABLE - TRADE - NET**

The Accounts receivable - trade account is categorized into the following:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Department of Health (DOH)	20,823,578	600,643	27,178,395
Other Government Accounts	15,851,249	21,689,862	25,841,091
Commercial Accounts including Territorial Wholesalers	36,114,765	38,881,391	48,810,843
Others	-	-	10,500
	72,789,592	61,171,896	101,840,829
Less: Allowance for doubtful accounts	30,673,021	24,919,015	20,166,973
<b>Accounts receivable - trade - net</b>	<b>42,116,571</b>	<b>36,252,881</b>	<b>81,673,856</b>

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**5. ACCOUNTS RECEIVABLE - NON TRADE**

The Accounts receivable - non trade account is composed of the following:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Due from BIR	22,072,635	19,562,254	28,734,966
Due from Affiliates - PITC	10,431,736	4,796,742	379,915
Due from DOH	411,161	-	-
Due from Officers and Employees	125,381	197,050	1,017,363
Due from SSS	72,299	55,800	37,266
Due from LGUs	-	-	52,497
Other receivables	1,973,204	1,405,758	863
<b>Total Accounts receivable - non trade</b>	<b>35,086,416</b>	<b>26,017,604</b>	<b>30,222,870</b>

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The Due from BIR Input tax is net of recorded Output tax as of year-end.

Due from affiliates - PITC represents payments made by PITC Pharma, Inc. clients to PITC and other PPI advances for account of PITC.

Due from DOH represents advances made by PPI for the Advocacy Generics Summit, the amount of which was fully settled in January 2010.

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**6. INVENTORIES - NET**

This account is composed of the following:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Merchandise Inventory	63,871,905	101,492,325	139,886,312
Accountable Forms	241,077	216,059	146,740
Office Supplies	-	-	16,193
Other Supplies	-	-	16,469
	64,112,982	101,708,384	140,065,714
Less: Allowance for Inventory Loss/Obsolescence	5,485,731	4,054,119	6,131,969
<b>Inventories - net</b>	<b>58,627,251</b>	<b>97,654,265</b>	<b>133,933,745</b>

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Changes in allowance for inventory losses for the years ended December 31 are as follows:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
January 1	4,054,119	6,131,969	3,134,893
Provision	1,431,612	(2,077,850)	2,997,076
<b>December 31</b>	<b>5,485,731</b>	<b>4,054,119</b>	<b>6,131,969</b>

## 7. PREPAID EXPENSES

This account consists of the following:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Prepaid rent	220,976	220,976	220,976
Prepaid insurance	351,065	161,377	244,472
Deferred charges	7,069	7,069	7,069
Others	9,548	-	6,720
<b>Total Prepaid expenses</b>	<b>588,658</b>	<b>389,422</b>	<b>479,237</b>

Prepaid rent represents the two months security deposit to Dexter Go Co for the pharmacy and office space at the Orient Mansion.

Deferred charges represents tax asset from the payments of MCIT for the year 2006, which maybe used to reduce any subsequent period's income tax expense.

## 8. PROPERTY PLANT AND EQUIPMENT - NET

This account consists of the following:

<b>Particulars</b>	<b>Leasehold improvements</b>	<b>Furniture and fixtures/library books</b>	<b>Communication/ firefighting machine-ries, medical/dental/ other machine-ries</b>	<b>IT Equip-ment and software</b>	<b>Office equip-ment</b>	<b>Total</b>
<b>CY 2009</b>						
<u>Costs</u>						
January 01	4,478,383	1,644,194	348,956	3,771,423	149,553	10,392,509

<b>Particulars</b>	<b>Leasehold improvements</b>	<b>Furniture and fixtures/library books</b>	<b>Communication/ firefighting machineries, medical/dental/ other machineries</b>	<b>IT Equipment and software</b>	<b>Office equipment</b>	<b>Total</b>
Additions	-	-	-	80,563	61,000	141,563
Disposal/ Reclassification	-	-	-	(111,563)	-	(111,563)
<b>December 31</b>	<b>4,478,383</b>	<b>1,644,194</b>	<b>348,956</b>	<b>3,740,423</b>	<b>210,553</b>	<b>10,422,509</b>
<u>Accumulated Depreciation</u>						
January 01	1,525,225	164,493	31,836	882,653	30,087	2,634,294
Depreciation	761,767	147,978	31,490	675,920	30,785	1,647,940
Disposal/ Reclassification	-	-	-	(16,138)	-	(16,138)
<b>December 31</b>	<b>2,286,992</b>	<b>312,471</b>	<b>63,326</b>	<b>1,542,435</b>	<b>60,872</b>	<b>4,266,096</b>
<b>Net Book Value-</b>						
<b>December 31, 2009</b>	<b>2,191,391</b>	<b>1,331,723</b>	<b>285,630</b>	<b>2,197,988</b>	<b>149,681</b>	<b>6,156,413</b>
<u>CY 2008</u>						
<u>Costs</u>						
January 01	4,416,468	1,491,505	348,956	3,207,000	81,054	9,544,983
Additions	61,915	152,689	-	564,423	68,499	847,526
<b>December 31</b>	<b>4,478,383</b>	<b>1,644,194</b>	<b>348,956</b>	<b>3,771,423</b>	<b>149,553</b>	<b>10,392,509</b>
<u>Accumulated Depreciation</u>						
January 01	767,476	19,165	374	252,553	4,562	1,044,130
Depreciation	757,749	145,328	31,462	630,100	25,525	1,590,164
<b>December 31</b>	<b>1,525,225</b>	<b>164,493</b>	<b>31,836</b>	<b>882,653</b>	<b>30,087</b>	<b>2,634,294</b>
<b>Net Book Value-</b>						
<b>December 31, 2008</b>	<b>2,953,158</b>	<b>1,479,701</b>	<b>317,120</b>	<b>2,888,770</b>	<b>119,466</b>	<b>7,758,215</b>
<b>Net Book Value-</b>						
<b>December 31, 2007</b>	<b>3,648,992</b>	<b>1,472,340</b>	<b>348,581</b>	<b>2,954,448</b>	<b>76,492</b>	<b>8,500,853</b>

Leasehold improvements represent the cost of the renovation of the Company's leased office space and Company-operated Botika ng Bayan at the ground floor of the Orient Mansion and the renovation of the Company's main office at the 2<sup>nd</sup> floor of the NDC building.

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**9. ACCOUNTS PAYABLE**

This account consists of:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Accounts payable - trade	53,769,576	38,331,841	60,853,159
Accounts payable - non trade	1,168,054	2,129,464	4,313,157
<b>Total Accounts payable</b>	<b>54,937,630</b>	<b>40,461,305</b>	<b>65,166,316</b>

Accounts payable - trade represents amount due to various suppliers for the purchase of merchandise for sale.

Accounts payable - non trade are liabilities arising from various services such as security, janitorial; expenses for utility, communications and expenses other than purchase of merchandise for sale.

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**10. INTER-AGENCY PAYABLES**

This account consists of:

<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Due to PCSO	4,947,988	-	-
Due to DOH	2,388,135	37,795,721	-
Due to BIR	1,009,980	10,085,531	30,014,514
Due to SSS	126,420	135,510	133,707
Due to Philhealth	31,525	131,738	130,008
Due to Pag-ibig	26,898	33,339	42,634
<b>Total Inter-agency payables</b>	<b>8,530,946</b>	<b>48,181,839</b>	<b>30,320,863</b>

The account Due to DOH represents the unliquidated balance of the P50 million fund transfer intended for the DOH P100 project pursuant to DOH Administrative Order No. 2008-0013 and covered by a Memorandum of Agreement by and between DOH and PPI.

The liability to the BIR includes withholding taxes for remittance in January of the following year. Due to SSS represents social security benefits, likewise, for remittance in January of the following year.

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**11. OTHER CURRENT LIABILITIES**

This account is broken down as follows:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Current portion of long term loan	185,000,000	138,750,000	92,500,000
Interest payable	55,500,000	39,466,667	18,500,000
Performance/bidders bond	2,564,170	771,088	-
Vacation and sick leave	1,552,575	1,349,052	-
Due to officers and Employees	1,134,051	1,084,336	1,307,662
Others	2,777,665	1,705,631	1,514,793
<b>Total Other current liabilities</b>	<b>248,528,461</b>	<b>183,126,774</b>	<b>113,822,455</b>

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Other current liabilities include the current portion of the four-year loans payable to NDC which expired on December 26, 2009. Interest payable represents the accrued interest on the loans availed from NDC as disclosed in Note 12.

Vacation and sick leave payable is recognized corresponding to the monetary value of the unused accumulated vacation and sick leave credit balances as at December 31, 2009 and 2008.

Other payables include overpayments made by various clients and a fund entrusted by a supplier for the payment of advocacy expenses.

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**12. LOANS PAYABLE**

This account consists of loans availed from NDC under the Loan Agreement entered into by and between NDC and the Company for organizational and operational expenditures in pursuit of the Half-Priced Medicines Program. The loans bear an interest rate of 10 per cent per annum. The principal and interest are payable every quarter reckoned from each drawdown date for a period of four years, with a one year grace period on the principal, but in no case shall the repayment period extend beyond December 26, 2009. However, due to failure to pay, PPI has requested NDC a restructuring of the matured loan with a possible reduction of interest rate.

In the absence of a restructuring agreement, the total amount of P185 million is presented in the financial statements as current.



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**13. DUE TO AFFILIATES**

The breakdown of this account is as follows:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Due to PITC	22,780,440	21,001,924	21,864,634
Due to NDC	3,481,280	6,169,397	3,756,616
<b>Total Due to affiliates</b>	<b>26,261,720</b>	<b>27,171,321</b>	<b>25,621,250</b>

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The liability to PITC includes a portion of cost of stocks transferred from PITC, trade returns accepted from previous PITC sales, and other direct expenses unpaid as at December 31, 2009.

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**14. CAPITAL STOCK**

With the Security and Exchange Commission's approval of the increase in capitalization, the Company presently has an authorized capital stock of P100 million, divided into one million (1,000,000) common shares at a par value of P100 per share.

As at December 31, 2009, the Company has Subscribed and Paid-in Capital of P37,500,000, consisting of:

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<b>Investors</b>	<b>Percentage</b>	<b>Amount</b>
Philippine International Trading Corporation	60%	22,500,000
National Development Corporation	40%	15,000,000
<b>Total</b>	<b>100%</b>	<b>37,500,000</b>

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**15. SALES**

Sales is broken down into the following categories of customers:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Department of Health	122,422,199	55,981,469	79,697,964
BnB Orient Mansion	14,375,350	20,617,222	12,415,182
Commercial Accounts	11,996,807	19,096,593	64,977,857
Other Government Accounts	10,289,280	22,744,001	36,708,483
Others	526,962	5,212,834	66,973,661
<b>Total Sales</b>	<b>159,610,598</b>	<b>123,652,119</b>	<b>260,773,147</b>

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**16. OPERATING EXPENSES**

Operating Expenses are broken down as follows:

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<b>Particulars</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Personal services			
Salaries and wages	17,935,322	18,945,732	15,039,141
Other compensation	9,937,529	12,826,577	10,489,787
Personnel benefits	1,084,205	1,182,482	996,466
	<b>28,957,056</b>	<b>32,954,791</b>	<b>26,525,394</b>
Maintenance and other operating expenses			
Donation expense	11,590,647	31,304,950	2,190,421
Loss on inventory	6,303,642	3,293,765	4,334,189
Bad debt expense	5,754,006	4,752,042	19,845,199
Rent expense	4,349,393	4,611,560	4,459,412
Professional services	3,967,922	5,298,926	7,738,436
Depreciation expense	1,631,802	1,590,164	930,625
Travelling expense	1,546,881	1,492,723	1,570,086
Communication expense	1,418,679	1,673,590	1,231,332
Taxes, insurance premiums and other fees	1,266,984	1,567,122	1,121,907
Utility expense	1,259,146	1,279,596	1,286,107
Supplies and materials expense	665,029	907,588	1,411,067
Advertising expense	421,548	42,165	476,170
Representation expense	347,456	597,542	817,235
Training expense	171,708	459,050	1,653,430
Repairs and maintenance expense	99,346	214,216	114,007
Printing and binding expense	-	378,775	783,233
Subscription expense	9,134	12,462	19,726
Membership dues and contri- butions to organization	7,500	3,000	-
Transportation and delivery expense	-	20,953	26,952
Athletics and cultural expense	-	-	16,248
Other maintenance and operating expenses	-	5,329	-
Miscellaneous expense	1,445,823	1,933,063	3,415,273
	<b>42,256,646</b>	<b>61,438,581</b>	<b>53,441,055</b>
<b>Total Operating expenses</b>	<b>71,213,702</b>	<b>94,393,372</b>	<b>76,966,449</b>

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**17. NET OF LOSSES CARRIED OVER (NOLCO)**

PPI did not set up a deferred tax asset on the NOLCO since 2006. Details of the Company's NOLCO as at December 31, 2009 are as follows:

<b>Inception Year</b>	<b>Amount</b>	<b>Applied/Expired</b>	<b>Balance</b>	<b>Expiry Year</b>
2006	15,055,265	(15,055,265)	-	2009
2007	32,286,338	-	32,286,338	2010
2008	75,112,019	-	107,398,357	2011

As of December 31, 2009, PPI's operation resulted in a zero tax liability due to losses incurred for the current and the preceding two years.