

PITC Pharma, Inc
Annual Audit Report for CY 2011

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.

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 except for specific programs and instances allowed by the Department of Health.

B. FINANCIAL HIGHLIGHTS

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

<i>Financial Condition</i>	2011	2010
Total Assets	109,908,317	135,060,266
Total Liabilities	353,644,589	359,753,961
Capital Deficiency	(243,736,272)	(224,693,695)
<i>Result of Operations</i>		
Gross Profit	41,693,914	27,441,561
Total Expenses	60,736,491	86,048,950
Net Loss	(19,042,577)	(58,607,389)

C. SCOPE OF AUDIT

The audit covered the accounts and operations of the Corporation for the calendar year 2011. 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 2006 to 2011 cast doubts on the viability of the Corporation to continue its operation and perform its mandate.

We recommended that Management:

- a) Conduct an assessment of the conditions affecting the ability of PPI to continue as a going-concern entity; and discuss in the Notes to Financial Statements the identified uncertainties that may cast significant doubts on the PPI's ability to continue its operations and carry out the mandated functions, together with the business plans and strategies of PPI in addressing these

uncertainties, in accordance with accounting and auditing standards.

- b) Seek financial assistance from parent corporations for additional capital, in accordance with Section 3 of the Shareholder Agreement between PITC and NDC that states that:

“The unsubscribed portion of the Corporation’s authorized capital stock may be subscribed and paid up by PITC or such other parties as may be approved by the Board of Directors in accordance with the Corporation’s business and financial plans as may be approved by the said Board of Directors.”

- c) Make representation with NDC for rescheduling of loan repayment or restructuring of loan; and
- d) Identify areas in the operations for streamlining to reduce costs and increase sales, and minimize losses.

F. STATUS OF IMPLEMENTATION OF PRIOR YEAR’S AUDIT RECOMMENDATIONS

Of the six audit recommendations embodied in the 2010 Annual Audit Report, three were implemented and three were partially implemented. Details are presented in Part II-B of this Report.

G. COA AUDIT TEAM COMPOSITION

The PITC Pharma, Inc. was audited by Team 2B under Audit Group I - Trading and Promotion Group headed by Ms. **Cora D. Marquez**, State Auditor IV and OIC - Supervising Auditor. The Audit Team was composed of the following:

<i>Name/Position</i>	<i>Designation</i>
Rebecca B. Aquino, State Auditor IV	Audit Team Leader
Ignacia P. Taroy , State Auditor II	Audit Team Member