

NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

AUDITED FINANCIAL STATEMENTS

as of March 31, 2019

DONNIE RAY A. LIM, MSA, CPA

PRC-CPA NO. 123292

Davao City, Philippines

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANT

TO THE MANAGEMENT

NATCO LIFESCIENCES PHILIPPINES, INC.
(A Subsidiary of NATCO PHARMA LIMITED)
2629 Taft Avenue, Brgy. 688, Malate City,
Manila, Philippines

I have audited the financial statements of NATCO LIFESCIENCES PHILIPPINES, INC. (a subsidiary) which comprise the statement of financial position as at March 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Opinion

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of NATCO LIFESCIENCES PHILIPPINES, INC. as at March 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

I conducted my audit in accordance with Philippine Standards on Auditing (PSAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Company in accordance with the ethical requirements that are relevant to my audit of the financial statements in the Philippines, the Code of Ethics for Professional Accountants in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs) 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.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs 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 PSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

I 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 I identify during my audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

My audits are conducted for the purpose forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in **Note (18) Notes** to financial statements is presented for purpose of filing with the Bureau of Internal Revenue and is not a required part of basic financial statements. Such information is the responsibility of the management of **NATCO LIFESCIENCES PHILIPPINES, INC.** The information has been subjected to the auditing procedures applied in my audit of the basic financial statements. In my opinion, the information is fairly stated in all material respect in relation to the basic financial statements taken as a whole


DONNIE RAY A. LIM

TIN NO. 937-424-226-000

BOA Accreditation No. 5892 valid until December 31, 2020

BIR Accreditation No. 19-006337-1-2019

CPA Board Certificate No. 123292 valid until October 4, 2021

PTR No. 01765310C dated January 15, 2019

05/13/19

Davao City, Philippines

NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

STATEMENT OF FINANCIAL POSITION

as of March 31, 2019

	Notes		as of March 31, 2019
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	5	P	1,602,341
Trade and Other Receivables	6		234,700
Prepayments	7		113,674
Inventory- End	10		9,414,390
Input Tax	6		119,019
Total Current Assets		P	11,484,124
NON-CURRENT ASSETS			
Property and Equipment, net of depreciation	9	P	223,814
Deferred Tax Asset	8		1,551,451
Total Non-Current Assets		P	1,775,265
TOTAL ASSETS		P	13,259,389
LIABILITIES & SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Trade & Other Payable	11	P	1,142,273
Total Current Liabilities		P	1,142,273
NON-CURRENT LIABILITY			
Loans Payable	12	P	5,267,100
Total Liabilities		P	6,409,373
Stockholders Equity	3	P	6,850,016
TOTAL LIABILITIES & STOCKHOLDER'S EQUITY		P	13,259,389

See Notes to Financial Statements



NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

STATEMENT OF COMPREHENSIVE INCOME as of March 31, 2019

as of March 31, 2019			
	Note		
Sales	14	P	565,464
Cost of Sales	14		281,194
Gross Profit		P	284,270
Operating and Administrative Expenses	16,17		1,847,927
Net Income (Loss) from Operations		P	(1,563,657)
Gain (Loss) on Forex Differential	13		300,556
Finance Costs	17		65,839
Other Income	13		41
Total Income(Loss)			(1,930,011)
Provision for Income Tax			-
Current			
Deferred	8		579,003
NET INCOME (LOSS) for the Year	20	P	(1,351,008)

See Notes to Financial Statements



NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

STATEMENT OF CHANGES IN CASH FLOWS

as of March 31, 2019

	Notes		as of March 31, 2019
OPERATING ACTIVITIES			
Net Income (Loss)		P	(1,351,008)
Adjustment for depreciation	9		15,265
Operating Income before Changes in Working Capital		P	(1,335,743)
Changes in Working Capital			
Accounts Receivable	6		(234,700)
Input VAT	6		(10,559)
Prepayments	7		-
Inventories	10		281,194
Deferred Tax Asset	8		(609,033)
Accounts Payable	11		134,600
SSS/PHIC/HDMF Payable	11		26,093
Withholding Tax Payable	11		(31,580)
Output Tax	11		67,856
Accrued Interest	11		65,839
Net Cash Provided By Operating Activities		P	(1,646,033)
INVESTING ACTIVITIES			
Acquisition of Properties:			
Office Equipment	9	P	(3,054)
Furniture and Fixtures	9		-
Net Cash Provided By Investing Activities		P	(3,054)
FINANCING ACTIVITIES			
Loans Payable - due to Forex	12		17,100
Net Cash Provided By Financing Activities		P	17,100
Net Cash Increase (Decrease) for the Period		P	(1,631,987)
Cash at the beginning of the period		P	3,234,328
Cash at the end of the period	5	P	1,602,341

See Notes to Financial Statements



NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

STATEMENT OF CHANGES IN EQUITY as of March 31, 2019

	Note	as of March 31, 2019
Authorized Capital Stock	10,400,000.00	3
Stockholder's Equity - Beginning (Subscribed and Paid)	3	P 10,400,000
Retained Earnings		
Balance at the Beginning of the Year		(2,198,976)
Net Income (Net Loss) for the period		(1,351,008)
Total		(3,549,984)
Stockholder's Equity - End		P 6,850,016



NATCO LIFESCIENCES PHILIPPINES, INC.

Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila

NOTES TO FINANCIAL STATEMENTS

as of March 31, 2019

1 ORGANIZATION

NATCO LIFESCIENCES PHILIPPINES, INC. was organized in the year 2017 and was finally registered with the Securities and Exchange Commission in March 19, 2018

The Corporation's registered office, which is also its principal place of business is located at Unit 1-B Ground Floor, Manor Building 2629 Taft Avenue Brgy. 719 Zone 78 Malate Manila.

2 BASIS OF PREPARATION

The financial statements of the enterprise have been prepared in accordance with Philippine Financial Reporting Standard under the International Financial Reporting Standard for Small and Medium-sized Entities issued by the International Accounting Standards Board. The financial statements are presented in Philippine Peso, the Company's functional and reporting currency. All values are rounded to the nearest peso except as otherwise indicated.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Assets

Financial Assets include cash and accounts receivable. All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction cost.

Cash includes cash in bank and on hand that are subject to insignificant risk.

Accounts receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the enterprise provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in the current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

Materials and Supplies

At the balance sheet date, materials and supplies are valued at the lower of cost and net realizable value. Cost is determined using the first-in first-out method.

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

Property and Equipment

Property and equipment, except land, are carried at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.



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

<u>Category</u>	<u>Estimated Life in Years</u>
Office Equipment	5
Furnitures and fixtures	5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.

An asset's carrying written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recovery amount.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

Accounts Payable and Other Financial Liabilities

Financial liabilities include accounts payable and accrued expenses, taxes payable and loans payable.

Financial liabilities are recognized when the enterprise becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as expense in the income statement under the caption interest expense.

Accounts Payable and accrued expenses are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Taxes Payable are cash obligations of the enterprise that is payable to the Bureau of Internal Revenue, as mandated by law.

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

Financial liabilities are derecognized from the balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

Revenue and Cost Recognition

Contract costs are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recovered.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognized over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

The enterprise uses the percentage method to determine the appropriate amount to recognize as revenue in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated cost for each contract. Costs incurred in the year in connection with the future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as materials and supplies, prepayments or other assets, depending on their nature.

Impairment of Assets

Assessments is made at year-end whether there is any indications that an asset may be impaired. If any such indication exists, a formal estimate is made of the recoverable amount of the asset.



Stockholder's Equity

Stockholder's Equity Authorized, Subscribed and Paid is Php10,400,000.00.

4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

Judgments

In the process of applying the enterprise's accounting policies, judgments is exercised by management to distinguished between provision and contingencies. No provision and contingencies were recognized during the year.

Estimates and Assumptions

The estimates and assumptions used in the financial statements are based upon managements's evaluation of relevant facts and circumstances of the enterprise financial statements. Actual results could differ from those estimates. The following are relevant estimates performed by management on its interim financial statements.

Estimated Useful Lives of the Property and Equipment

The company estimates the useful lives of the property and equipment based on the economic lives of the property and equipment. The estimated useful lives of the property and equipment are reviewed periodically and updated if expectations differ materially from pervious estimates due to physical wear and tear, technical or commercial obsolescence and other legal or other limits on the use of the property and equipment. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstance. A reduction in the estimated usefulmlives of the property and equipment would increase the recorded expenses and decrease the non-current assets.

5 CASH AND CASH EQUIVALENTS

	as of March 31, 2019	
Cash in Bank	P	1,592,371
Revolving Fund- Marketing		35,000
Petty Cash Fund		5,000
TOTAL	P	1,632,371

6 TRADE AND OTHER RECEIVABLES

	as of March 31, 2019	
Accounts Receivable	P	234,700
Input Tax	P	119,019
TOTAL	P	353,719

7 PREPAYMENTS

	as of March 31, 2019	
Prepayments		113,674
TOTAL	P	113,674

8 DEFERRED TAX ASSET

	as of March 31, 2019	
Deferred Tax Asset		1,551,451
TOTAL	P	1,551,451



9 PROPERTY AND EQUIPMENT - NET

as of March 31, 2019

Office Equipment	P	166,554
Furnitures and Fixtures		72,525
Total	P	239,079
Less: Accumulated Depreciation		15,265
Total Net Cost of Property and Equipment	P	223,814

10 INVENTORY- END

as of March 31, 2019

Inventory- End	P	9,414,390
TOTAL	P	9,414,390

11 TRADE AND OTHER PAYABLES

as of March 31, 2019

Accounts Payable	P	905,481
Withholding Tax Payable		3,725
Withholding Tax Payable- Compensation		(8,448)
SSS/PHIC/HDMF Payable		47,626
Accrued Interest		121,962
Output Tax		71,927
Total Trade and Other Receivables	P	1,142,273

12 LOANS PAYABLE

as of March 31, 2019

Loans Payable	P	5,250,000
Less: Gain (Loss) on Forex Differential		(17,100)
Total Trade and Other Receivables	P	5,267,100

13 OTHER INCOME

as of March 31, 2019

Gain (Loss) on Forex Differential	P	(300,556)
Other Income		41
TOTAL	P	(300,515)

14 SALES

as of March 31, 2019

Sales	P	565,464
TOTAL SALES		565,464

15 COST OF SALES

as of March 31, 2019

Inventory, Beginning	P	9,695,584
Add: Purchases		
Total Good Available for Sale	P	9,695,584



Less: Inventory, end		9,414,390
		281,194
Freight In		
Total	P	281,194

16 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	as of March 31, 2019
Marketing Expense	57,552
Rent Expense	34,093
Repairs and Maintenance	31,000
Meals and Representation	98,936
Transportation and Travel	196,627
Salaries and Wages	803,673
13th Month Pay and Other Benefits	9,524
Bank Charges	1,518
Communication Expense	27,570
Fuel and Oil	44,965
Office Supplies Expense	8,616
Taxes and Licenses	29,725
Utilities Expense	16,027
Miscellaneous Expense	1,987
Professional and Consultancy Fee	411,132
SSS/PHIC/HDMF Expense	35,032
Documentation and Processing Fee	11,660
Parking and Toll Fee	13,025
Depreciation Expense	15,265
	P 1,847,927

17 FINANCE COSTS

	as of March 31, 2019
Interest Expense	P 65,839
TOTAL SALES	65,839

18 SUPPLEMENTAL INFORMATION ON TAXES AND LICENSES

	as of March 31, 2019
Permits and Licenses	P 28,725
Documentary Stamp Tax	"
Annual Registration Fee	500
Cedula	500
Total	P 29,725

19 APPROVAL OF FINANCIAL STATEMENTS AND OTHER MATTERS

The President of the company, who was authorized by the Board of Directors to cause the issuance of financial statements, approved the issuance of the comparative financial statements on May 27, 2019.

20 NET OPERATING LOSS CARRY OVER

Available NOLCO which can be carried over as a deduction from gross income for the three succeeding taxable year is as follows:

Taxable Year		Unutilized
2018	P	3,141,394
March 31, 2019		1,930,011
TOTAL	P	5,071,405

