Boticard Inc.

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
BotiCARD, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BotiCARD, Inc., (the Company), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, 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 a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, 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 (PSAs). Our responsibilities under those standards are further described in the *Auditor's 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 audit 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 PFRSs, 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

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 auditor's 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 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, 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- 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 the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of BotiCARD, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-A (Group A),
October 1, 2015, valid until September 30, 2018
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 6621226, January 9, 2018, Makati City

April 18, 2018

BOTICARD INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 5 and 20)	**₱22,250,557**	₱15,649,604
Trade and other receivables (Notes 6 and 20)	**4,887,159**	8,085,157
Inventories (Note 7)	**4,704,178**	5,479,089
Other assets (Note 8)	**241,601**	437,230
Total Current Assets	**32,083,495**	29,651,080
Noncurrent Assets		
Property and equipment (Note 9)	**302,072**	647,247
Intangible assets (Note 10)	**59,623**	121,302
Retirement asset (Note 18)	**3,872,259**	3,737,232
Other assets (Note 8)	**371,891**	458,583
Total Noncurrent Assets	**4,605,845**	4,964,364
	₱36,689,340	₱34,615,444
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 11)	**₱3,549,679**	₱2,359,815
Income tax payable	**26,917**	173,547
Finance lease payable (Note 18)	**28,567**	76,541
Total Current Liabilities	**3,605,163**	2,609,903
Noncurrent Liabilities		
Financial lease payable (Note 18)	–	28,222
Deferred tax liability (Note 19)	**849,248**	824,551
Total Noncurrent Liabilities	**849,248**	852,773
	4,454,411	3,462,676
Equity		
Capital stock (Note 12)	**28,743,357**	22,320,500
Retained earnings	**1,820,122**	7,574,930
Remeasurement gain on retirement plan (Note 17)	**1,671,450**	1,257,338
	32,234,929	31,152,768
	₱36,689,340	₱34,615,444

See accompanying Notes to Financial Statements.

BOTICARD INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
NET SALES (Notes 13 and 20)	**₱50,218,237**	₱59,703,915
COST OF SALES (Note 7)	**26,075,248**	29,167,713
GROSS PROFIT	**24,142,989**	30,536,202
GENERAL AND ADMINISTRATIVE EXPENSES (Note 14)	**12,659,375**	15,248,305
SELLING AND DISTRIBUTION EXPENSES (Note 15)	**10,934,056**	14,727,619
OPERATING INCOME	**549,558**	560,278
OTHER INCOME		
Interest (Notes 5 and 20)	**331,620**	205,066
Gain on sale of asset (Note 9)	**71,776**	885,818
Others	**174,902**	500,424
	578,298	1,591,308
INCOME BEFORE INCOME TAX	**1,127,856**	2,151,586
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 19)	**401,337**	(86,513)
NET INCOME	**₱726,519**	₱2,238,099

See accompanying Notes to Financial Statements

BOTICARD INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	**₱726,519**	₱2,238,099
OTHER COMPREHENSIVE INCOME		
Items that may not be classified to the statement of income:		
Remeasurement gain on retirement plan (Note 18)	**591,589**	6,489,637
Income tax effect (Note 20)	**(177,477)**	(1,946,891)
	414,112	4,542,746
TOTAL COMPREHENSIVE INCOME	**₱1,140,631**	₱6,780,845

See accompanying Notes to Financial Statements.

BOTICARD INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 12)	**Retained Earnings**	**Remeasurement Gain(Loss) on Retirement Plan** (Note 18)	**Total**
Balances at January 1, 2017	**₱22,320,500**	**₱7,574,930**	**₱1,257,338**	**₱31,152,768**
Issuance of capital stock	**115,000**	**–**	**–**	**115,000**
Stock dividends declared and distributed	**6,307,857**	**(6,481,327)**	**–**	**(173,470)**
Total comprehensive income for the year	**–**	**726,519**	**414,112**	**1,140,631**
Balances at December 31, 2017	**₱28,743,357**	**₱1,820,122**	**₱1,671,450**	**₱32,234,929**
Balance at January 1, 2016	₱20,732,500	₱5,336,831	(₱3,285,408)	₱22,783,923
Issuance of capital stock	1,588,000	–	–	1,588,000
Total comprehensive income for the year	–	2,238,099	4,542,746	6,780,845
Balance at December 31, 2016	₱22,320,500	₱7,574,930	₱1,257,338	₱31,152,768

See accompanying Notes to Financial Statements.

BOTICARD INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,127,856**	₱2,151,586
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	**479,420**	724,747
Retirement expense (Notes 17 and 18)	**456,562**	1,690,952
Interest income	**(331,620)**	(205,066)
Gain on sale of asset (Note 9)	**(71,776)**	(885,818)
Provision for (reversal of) allowance on inventory losses and credit losses (Notes 6, 7 and 15)	**(76,624)**	420,128
Interest Expense	**–**	25,070
Change s in operating assets and liabilities:		
(Increase) decrease in the amounts of:		
Trade and other receivables	**3,197,998**	(4,155,457)
Inventories	**851,534**	3,686,418
Other assets	**282,324**	77,383
Increase (decrease) in the amounts of:		
Trade and other payables	**983,510**	(4,293,272)
VAT payable	**32,882**	(195,227)
Net cash generated from (used in) operations	**6,932,066**	(958,556)
Income taxes paid	**(700,747)**	(953,506)
Interest income received	**331,620**	205,066
Contribution to retirement fund (Note 18)	**–**	(2,000,000)
Net cash provided by (used in) operating activities	**6,562,939**	(3,706,996)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	**(72,566)**	(208,726)
Intangible assets (Note 10)	**–**	(55,511)
Proceeds from sale of property and equipment (Note 9)	**71,776**	945,711
Net cash provided by (used in) investing activities	**(790)**	681,474
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock (Note 12)	**115,000**	1,588,000
Payment of finance lease liability (Note 19)	**(76,196)**	(89,332)
Net cash flows provided by financing activities	**38,804**	1,498,668
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,600,953**	(1,526,854)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**15,649,604**	17,176,458
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱22,250,557**	₱15,649,604

See accompanying Notes to Financial Statements.

BOTICARD INC.
NOTES TO FINANCIAL STATEMENTS

1. Company Information

BotiCARD Inc. (the Company) was incorporated and duly registered with the Securities and Exchange Commission (SEC) on May 20, 2011. The Company is a member of Center for Agriculture and Rural Development – Mutually Reinforcing Institutions (CARD-MRI) and was created primarily to engage in the business of purchasing, delivery and selling prescription drugs, proprietary drugs, and non-prescription medicines and of other merchandise such as grocery items, soda, agricultural and novelty products.

The Company's principal place of business is at 20 M.L. Quezon St., City Subdivision, San Pablo City, Laguna.

The Company has one (1) warehouse and ten (10) branches as at December 31, 2017 and 2016 located in the Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation
The financial statements have been prepared on a historical cost basis and are presented in Philippine peso (₱), the Company's functional currency. All values are rounded to the nearest peso.

Statement of Compliance
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standard (PFRS).

The Company availed of the exemption from the mandatory adoption of PFRS for Small and Medium-sized Entities (PFRS for SMEs) on the grounds that the Company is an associate of another company that is reporting under full PFRS.

Changes in Accounting Policies and Disclosures
The Company applied the following pronouncements for the first time which are effective for annual periods beginning on or after January 1, 2017:

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

Adoption of these pronouncements did not have significant impact on the Company's financial position or performance.

Presentation of Financial Statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Income and expense are not offset in the statements of income and comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Summary of Significant Accounting Policies

Current versus Non-current Classification
The Company presents assets and liabilities in statement of financial position based on current and non-current classification.

An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when, it is:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which the fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. Described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

As at December 31, 2017 and 2016, none of the Company's financial instruments 'Cash and cash equivalent', Trade and other receivables', refundable rental deposits recorded under 'Other current assets', 'Trade and other payables' and 'Finance lease payable' are measured at fair value. The carrying amount of these financial instruments as reflected in the statement of financial position and related notes, approximates their respective values due to their relatively short-term maturities.

As at December 31, 2017 and 2016, the Company's financial instruments where the carrying values do not approximate fair value pertains to refundable rental deposits recorded under "Other noncurrent assets". These are reported at cost and are not significant in relation to the Company's asset portfolio.

<u>Cash and Cash Equivalents</u>
Cash and cash equivalents include cash on hand and cash in banks. Cash on hand includes undeposited checks and petty cash fund while cash in banks include savings deposits and time deposits that are highly liquid and are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of placements and which are subset to insignificant risk if changes in value.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Initial recognition of financial instrument
All financial instruments are initially measured at fair value. Except for financial assets and liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments and loans and receivables. Financial liabilities are classified into financial liabilities at FVPL and financial liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As at December 31, 2017 and 2016, the Company has no financial instruments at FVPL, HTM and AFS investments.

Trade and other receivables
Receivables include trade receivables, refundable deposits and accruals. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Company intends to sell immediately or in the near term and those that the Company, upon initial recognition, designates as FVPL;
- those that the Company, upon initial recognition, designates as AFS; and
- those for which the Company may not cover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included under 'Interest income' in the statement of income. The losses arising from impairment are recognized under 'Provision for impairment and credit losses in the statement of income.

Trade receivables are based on normal credit terms and do not bear interest, are initially recognized at the transaction price and subsequently measured at cost.

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

Financial liabilities at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL, where the substance of the contractual arrangements result in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified and not designated as FVPL, are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs.

This accounting policy applies primarily to the statement of financial position caption 'Trade and other payables'.

Derecognition of Financial Instruments

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Inventories

Inventories are valued at the lower of cost or net realizable value (NRV). Cost is determined primarily on the basis of weighted average cost method. Cost consists of purchase price, including duties, transport and handling cost and other incidental expenses in bringing the inventories to their present condition and location. NRV is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

The Company provides an allowance for inventory obsolescence due to deterioration, damage, breakage, age and condition. Provision for inventory obsolescence is determined based on specific identification at the time of physical count which is taken once a year.

Other Current Assets

Other current assets represent expenses not yet incurred but are already paid in cash. These are measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Property and Equipment

Property and equipment such as office equipment, office furniture and fixtures, transportation equipment and leasehold improvements, are stated at cost less accumulated depreciation, and any impairment in value.

Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance cost.

Depreciation and amortization commences once the property and equipment are available for use and is computed using the straight-line method over the estimated useful lives (EUL) of the respective assets, except for leasehold improvements which are amortized over the shorter of the EUL of the improvements or the terms of the related leases. The EUL of the depreciable assets are as follows:

Leasehold improvements	3 to 5 years or term of the related leases, whichever is shorter
Office equipment	3 years
Office furniture and fixtures	3 years

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is credited against profit or loss.

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

Intangible Assets
Intangible assets include software costs incurred in obtaining license for the software purchased and used by the Company. The amortization of software costs is on a straight-line basis over a period of three years and is recorded under 'Amortization expense' account in the statement of income.

Other Noncurrent Assets
Other noncurrent assets represent advance rental and refundable rental deposits which are measured at the amount of cash paid. Advance rental will be applied on the last months of the related lease agreements while refundable rental deposits are refundable upon termination of the related lease agreements.

Impairment of Nonfinancial Assets
At each reporting date, the Company assesses whether there is any indication that its nonfinancial assets (e.g., property and equipment, and intangible assets) may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Company makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the Cash Generating Unit (CGU) to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

Similarly, at each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item with its NRV. If an item of inventory is impaired, its carrying amount is reduced to NRV.

An impairment loss is charged against current operations in the period in which it arises.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Revenue
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured regardless of when payment is being made. Revenue is recorded at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal. The following specific recognition criteria must also be met before income is recognized:

Sale of goods
Sale of goods is recognized when delivery has taken place and the transfer of risks and reward has been completed.

Interest income
Interest income on deposits in banks is recognized as interest accrues, taking into account the effective yield of the asset.

Other income
Other income pertains to the gain on sale of scrap materials such as boxes, plastics bottles and cash overages. These are recognized upon collection or where there is a reasonable degree of certainty as to their collectability.

Costs and Expenses
Costs and expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Company. The following specific recognition criteria must also be met before costs and expenses are recognized:

Cost of sales
Cost that includes all expenses associated with the specific sale of goods. Cost of sales includes the purchase price and capitalizable purchase costs. Such costs are recognized when the related sales have been recognized.

Operating expenses
Operating expenses are expenses that arise in the course of ordinary operations of the Company. Operating expenses are recognized in statement of income when incurred. The cost and expenses are presented in the Company's financial statements by function.

General and administrative expenses pertain to operation expenses rather that to expenses that are directly related to the production of any goods or services, including rent, utilities, insurance and managerial salaries while the selling expenses pertain to the expenses incurred to promote, sell and deliver the Company's products.

Retirement Benefits

The Company operates a defined benefit retirement plan and a hybrid retirement plan, which require contributions to be made to a separately administered fund. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling, if any. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuary.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise.

Remeasurements are not reclassified to the statement of income in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Employee Leave Entitlement

Employee entitlements to annual leave is recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Trade and other payables' in the statement of financial position.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement.
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term.
c. There is a change in the determination of whether fulfillment is dependent on a specified asset.
d. There is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Company as lessee
Leases where the lessor retains substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Finance leases
The Company recognizes its rights of use and obligations under finance leases as assets and liabilities in its statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease. Payments for finance lease liability are apportioned between interest expense and reduction of outstanding liability.

Income Taxes
Current tax
Current tax assets and current tax liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided, using the statement of financial position liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which deductible temporary differences and carryforward of unused excess MCIT over RCIT and NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity is recognized in OCI, and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and such deferred taxes relate to the same taxable entity and the same taxation authority.

Value-Added Tax (VAT)
Revenue, expenses and assets are recognized net of the amount of VAT except:

- Where the VAT incurred on the purchase of an asset or service is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT payable from the tax authority is recorded under 'VAT payable' in the statement of financial position.

Capital Stock
Capital stock is measured at par value for all shares issued and outstanding. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. The subscribed capital stock is reported in equity less the related subscription receivable not collectible currently.

Retained Earnings
Retained earnings represent cumulative balance of periodic net income or loss, dividend distribution, if any, to the shareholders, prior period adjustments, effect of changes in accounting policy and all other capital adjustments.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense'.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Subsequent Events After the Reporting Date
Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events), are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Future Changes in Accounting Policies
Standards issued but not yet effective up to the date are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2018
- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value*
- Amendment to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company is currently assessing the impact of adopting PFRS 9.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is currently assessing the impact of adopting PFRS 15.

Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

PFRS 16, *Leases*
PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.
PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Company is currently assessing the impact of adopting PFRS 16.

Deferred effectivity
- *Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

3. **Significant Accounting Judgments and Estimates**

The preparation of financial statements in accordance with PFRS requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosures relating to contingent assets and contingent liabilities. Future events may occur which may cause the assumptions used in arriving at the estimates to change.

The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances. Critical judgments and estimates that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Estimates

a. *Present value of retirement obligation*
The determination of the Company's retirement cost is dependent on certain assumptions used by the actuary in calculating such amount. Those assumptions are described in Note 18 to the financial statements and include, among others, discount rate, future salary increase and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Company's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

As at December 31, 2017 and 2016, the present value of retirement obligation and fair value of plan assets of the Company are disclosed in Note 17.

b. *Recoverable value of inventories*
The Company assesses the recoverable amounts of its inventories at each reporting date. Inventories are assessed by comparing the carrying amount of each item of inventory with its selling price less cost to sell. An inventory is written down to the selling price less cost to sell when such amount is lower than cost, with the loss immediately recognized in the statements of income.

The carrying values of the Company's inventories are disclosed in Note 7.

c. *Recognition of deferred tax liabilities*
The amount of deferred tax liabilities recognized by the Company is based on the estimate of future taxable income. Significant management judgment is required to determine the amount of deferred tax asset that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning.

The Company reviews the carrying amount of deferred tax liabilities at each reporting date and reduces this to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax liabilities to be utilized. Recognized deferred tax liabilities are disclosed in Note 19 to the financial statements.

As at December 31, 2017 and 2016, management assessed that there is no significant accounting judgment exercised with respect to the preparation of the financial statements.

4. Financial Risk Management Objectives and Policies

Integral to the Company's business process is risk management. The Company operates an integrated risk management system to address the risk it faces in its financial activities particularly credit risk and liquidity risk. The Company is not exposed to any market risk. Exposures across these risks areas are regularly identified, measured, controlled, monitored and reported to the Board of Directors (BOD). The BOD directs the Company's overall risk management strategy and performs an oversight function on the Company's implementation of its risk policies. Furthermore, the BOD reviews, approves and ensures effective implementation of the risk management framework.

It approves risk-related policies, oversees limits to discretionary authority that delegates to management and evaluate the magnitude, distribution and direction of risk in the Company.

Credit Risk
Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due.

Maximum exposure to credit risk
The maximum exposure of the Company's financial instruments is equivalent to the carrying values as reflected in the statements of financial position and related notes.

The Company holds no collateral and other credit enhancements against its credit risk exposure as at December 31, 2017 and 2016.

As at December 31, 2017 and 2016, the Company has no financial instruments with rights of set-off in accordance to PAS 32. There are also no financial instruments that are subject to an enforceable master netting arrangements or similar agreements which require disclosure in the financial statements in accordance with amendments on PFRS 7.

Concentration of credit risk
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The tables below show the distribution of maximum credit exposure of the Company by industry sector as at December 31, 2017 and 2016:

	2017			
	Cash in banks	**Trade and other receivables***	**Refundable deposits****	**Total**
Financial institutions	**₱22,046,895**	**₱174,016**	**₱–**	**₱22,220,911**
Insurance	**–**	**2,076,143**	**–**	**2,076,143**
Consumers	**–**	**2,748,669**	**–**	**2,748,669**
Others	**–**	**–**	**326,281**	**326,281**
Total	**₱22,046,895**	**₱4,998,828**	**₱326,281**	**₱27,372,004**

**Includes unliquidated cash advances, medicine loans and health premiums paid by the Company for the employees' dependents*
***Included under 'Other assets' (Note 8)*

	2016			
	Cash in banks	Trade and other receivables*	Refundable deposits**	Total
Financial institutions	₱15,410,494	₱48,399	₱–	₱15,458,893
Consumers	–	6,265,412	–	6,265,412
Insurance	–	1,883,015	–	1,883,015
Others	–	–	551,661	551,661
Total	₱15,410,494	₱8,196,826	₱551,661	₱24,158,981

**Includes unliquidated cash advances, medicine loans and health premiums paid by the Company for the employees' dependents*
*** Included under 'Other assets' (Note 8)*

Credit quality per class of financial assets
Standard grade are bank deposits and receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with higher probability of default than those classified under high grade.

The tables below show the credit quality per class of financial assets (gross of allowance for credit and impairment losses) as at December 31, 2017 and 2016.

	2017			2016		
	Standard grade	**Impaired**	**Total**	Standard grade	Impaired	Total
Cash in bank	**₱22,046,895**	**₱–**	**₱22,046,895**	₱15,410,494	₱–	₱15,410,494
Trade receivables	**4,822,420**	**111,669**	**4,934,089**	7,890,175	111,669	8,001,844
Other receivables	**64,739**	**–**	**64,739**	83,313	–	83,313
Refundable deposits	**326,281**	**–**	**326,281**	551,661	–	551,661
Net Undiscounted Cash Flows	**₱27,260,335**	**₱111,669**	**₱27,372,004**	₱23,935,643	₱111,669	₱24,047,312

The Company does not have high grade or past due but not impaired financial assets as of December 31, 2017 and 2016.

Liquidity Risk

Liquidity risk is the risk arising from potential inability to meet obligations when they become due at a reasonable cost and timely manner. The Company manages liquidity risk by assessing the gap for additional funding and determining the best source and cost of funds on a monthly basis. To ensure sufficient liquidity, the Company sets aside funds to pay currently maturing obligations. These funds are placed in credible banks. Monitoring of daily cash position is being done to guide the management in making sure that sufficient liquidity is maintained. The Treasury Committee of CARD-MRI reviews the liquidity position of the Company on a monthly basis.

The tables below summarize the maturity profile of the financial instruments of the Company based on contractual undiscounted cash flows as at December 31, 2017 and 2016:

	2017			
	On demand	**Due within 1 year**	**Due beyond 1 year**	**Total**
Financial Assets				
Cash	**₱9,544,593**	**₱12,705,964**	**₱–**	**₱22,250,557**
Trade and other receivables	**–**	**4,998,828**	**–**	**4,998,828**
Refundable deposit	**–**	**181,729**	**144,552**	**326,281**
	9,544,593	**17,886,521**	**144,552**	**27,575,666**
Financial Liabilities				
Accounts payable	**–**	**1,652,519**	**–**	**1,652,519**
Accrued expenses	**–**	**834,734**	**–**	**834,734**
Finance lease payable	**–**	**28,567**	**–**	**28,567**
	–	**2,515,820**	**–**	**2,515,820**
Net Undiscounted Cash Flows	**₱9,544,593**	**₱15,370,701**	**₱144,552**	**₱25,059,846**

	2016			
	On demand	Due within 1 year	Due beyond 1 year	Total
Financial Assets				
Cash	₱11,166,538	₱4,483,065	₱-	₱15,649,603
Trade and other receivables	–	8,196,826	–	8,196,826
Refundable deposit	–	378,212	173,449	551,661
	11,166,538	13,058,103	173,449	24,398,090
Financial Liabilities				
Accounts payable	–	1,197,968	–	1,197,968
Accrued expenses	–	416,834	–	416,834
Finance lease payable	–	76,541	28,222	104,763
		1,691,343	28,222	1,719,565
Net Undiscounted Cash Flows	₱11,166,538	₱11,366,760	₱145,227	₱22,678,525

5. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱203,662**	₱239,110
Cash in banks	**9,340,931**	10,927,429
Cash equivalents	**12,705,964**	4,483,065
	₱22,250,557	₱15,649,604

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents represent time deposits with terms of 30 to 90 days replacements which bear annual interest rates of 1.5% to 4.0% and 1.5% to 3.5% in 2017 and 2016, respectively.

Interest income earned from cash and cash equivalents amounted to ₱0.3 million and ₱0.2 million in 2017 and 2016, respectively.

6. Trade and Other Receivables

This account consists of:

	2017	2016
Trade receivables (Note 20)	**₱4,934,089**	₱8,001,844
Other receivables	**64,739**	194,982
	4,998,828	8,196,826
Allowance for credit losses (Note 15)	**(111,669)**	(111,669)
	₱4,887,159	₱8,085,157

Trade receivables are non-interest bearing and are generally payable within 30 to 60 days from the sale of goods. Other receivables are due from the Company's employees in the form of unliquidated cash advances, medicine loans, and health premiums paid by the Company for the employee's dependents.

The Company recognized provision for credit losses on other receivables amounting to nil and ₱0.1 million in 2017 and 2016, respectively.

7. Inventories

This account consists of branded and generic medicines, health and beauty products and other pharmaceutical items which are stated at cost. The estimated net realizable value of the inventories is higher than their historical cost.

	2017	2016
Cost	**₱5,187,952**	₱6,039,486
Allowance for inventory losses	**(483,774)**	(560,398)
Carrying value	**4,704,178**	5,479,089
Net realizable value	**5,098,413**	7,441,775
Lower of cost and net realizable value	**₱4,704,178**	₱5,479,089

Inventories recognized as part of cost of sales in the statements of income amounted to ₱26.1 million and ₱29.2 million in 2017 and 2016, respectively.

	2017	2016
Inventories at beginning of year	**₱5,479,089**	₱9,473,966
Add: Net purchases	**25,300,337**	25,172,836
Inventories available for sale	**30,779,426**	34,646,802
Less: cost of goods sold	**26,075,248**	29,167,713
Inventories at end of year	**₱4,704,178**	₱5,479,089

Movements in the allowance for inventory write-down are as follows:

	2017	2016
Balance at beginning of year	**₱560,398**	₱251,939
Provisions (reversals) during the year	**(76,624)**	308,459
Balance at end of year	**₱483,774**	₱560,398

8. Other Assets

This account consists of:

	2017	2016
Current		
Refundable deposits	**₱181,729**	₱378,212
Prepaid insurance	**59,872**	59,018
	241,601	437,230
Noncurrent		
Refundable deposits	**144,552**	173,449
Prepaid insurance	**227,339**	285,134
	371,891	458,583
	₱613,492	₱895,813

Refundable deposits pertain to initial payments of operating lease arrangements on branch premises and transportation and information technology equipment which are recoverable at the end of the lease term.

9. Property and Equipment

The composition of and movements in this account follow:

	2017			
	Leasehold Improvements	Office Equipment	Office Furniture and Fixtures	Total
Cost				
Balance at beginning of year	₱1,126,294	₱1,684,989	₱200,555	₱3,011,838
Additions	72,566	–	–	72,566
Disposals	(343,794)	(90,905)	–	(434,699)
Balance at end of year	855,066	1,594,084	200,555	2,649,705

(Forward)

	2017			
	Leasehold Improvements	**Office Equipment**	**Office Furniture and Fixtures**	**Total**
Accumulated Depreciation				
Balance at beginning of year	**₱789,155**	**₱1,435,076**	**₱140,360**	**₱2,364,591**
Depreciation	**221,209**	**159,718**	**36,814**	**417,741**
Disposals	**(343,794)**	**(90,905)**	**–**	**(434,699)**
Balance at end of year	**666,570**	**1,503,889**	**177,174**	**2,347,633**
Net Book Value	**₱188,496**	**₱90,195**	**₱23,381**	**₱302,072**

	2016			
	Leasehold Improvements	Office Equipment	Office Furniture and Fixtures	Total
Cost				
Balance at beginning of year	₱1,740,418	₱1,819,675	₱200,555	₱3,760,648
Additions	178,886	29,840	–	208,726
Disposals	(793,010)	(35,000)	–	(828,010)
Reclassification (Note 10)	–	(129,526)	–	(129,526)
Balance at end of year	1,126,294	1,684,989	200,555	3,011,838
Accumulated Depreciation				
Balance at beginning of year	1,093,458	1,277,606	100,632	2,471,696
Depreciation	428,815	198,123	39,728	666,666
Disposals	(733,118)	(34,999)	–	(768,117)
Reclassification (Note 10)	–	(5,654)	–	(5,654)
Balance at end of year	789,155	1,435,076	140,360	2,364,591
Net Book Value	₱337,139	₱249,913	₱60,195	₱647,247

In 2017 and 2016, the Company recognized gain on sale of asset amounting to ₱0.1 million and ₱0.9 million, respectively.

Depreciation expenses are classified as general and administrative expense when the property and equipment are stationed in the head office and classified as selling and distribution expense when the property and equipment are stationed in the various branches.

Breakdown of depreciation expense follows:

	2017	2016
General and administrative expense (Note 14)	**₱180,785**	₱431,696
Selling and distribution expense (Note 15)	**236,956**	234,970
	₱417,741	₱666,666

10. **Intangible Assets**

The movements in this account follow:

	2017	2016
Cost		
Balance at beginning of year	**₱185,037**	₱–
Additions	–	55,511
Reclassification (Note 9)	–	129,526
Balance at end of year	**185,037**	185,037
Accumulated Amortization		
Balance at beginning of year	**63,735**	–
Amortization	**61,679**	58,081
Reclassification (Note 9)	–	5,654
Balance at end of year	**125,414**	63,735
Net book value	**₱59,623**	₱121,302

Amortization expenses are classified as general and administrative expense when the intangible assets are stationed in the head office and classified as selling and distribution expense when the intangible assets are stationed in the various branches. Breakdown of amortization expense follows:

	2017	2016
Selling and distribution expense (Note 15)	**₱35,245**	₱41,486
General and administrative expense (Note 14)	**26,434**	16,595
	₱61,679	₱58,081

11. **Trade and Other Payables**

This account consists of:

	2017	2016
Financial liabilities		
Accounts payable (Note 20)	**₱1,652,519**	₱1,197,968
Accrued expenses	**834,774**	416,834
	2,487,293	1,614,802
Nonfinancial liabilities		
VAT Payable	**508,115**	475,233
Accrued expenses	**445,567**	215,025
Others	**108,704**	54,755
	1,062,386	745,013
	₱3,549,679	₱1,884,582

Accounts payables arise from purchases of goods and services in the normal course of business. These are noninterest-bearing and are normally settled within 30 to 90 days.

Accrued expenses consist of unpaid professional fees, program monitoring and evaluation, and transportation and travel expenses, accumulated and monetized vacation leave credits, and unpaid bonuses.

VAT payable pertains to the excess of the output VAT from sales over the input VAT from purchases of goods and services. The Company has outstanding VAT payable amounting to ₱0.5 million as at December 31, 2017 and 2016.

Others consist of liabilities due to various government institutions such as withholding taxes, Social Security Services (SSS), PhilHealth and PAGIBIG fund.

12. Equity

Capital Stock
The Company's capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Common stock - ₱5 par value, 20,000,000 authorized shares				
Issued and outstanding	**2,000,000**	**₱10,000,000**	2,000,000	₱10,000,000
Subscribed	**9,261,571**	**46,307,857**	8,000,000	40,000,000
Subscription receivable	**(5,512,900)**	**(27,564,500)**	(5,535,900)	(27,679,500)
	5,748,671	**₱28,743,357**	4,464,100	₱22,320,500

Movements in capital stock follow:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Capital stock at beginning of year	**4,464,100**	**₱22,320,500**	4,146,500	₱20,732,500
Issuances of shares of stocks from settlement of subscriptions receivables	**23,000**	**115,000**	317,600	1,588,000
Stock dividends	**1,261,571**	**6,307,857**	–	–
Capital stock at end of year	**5,748,671**	**₱28,743,357**	4,464,100	₱22,320,500

Dividends

On April 28, 2017, the stockholders approved the declaration of stock dividends to all common stockholders amounting to ₱3.80 million (equivalent to ₱0.38 per share) based on Financial Statement on Financial Statement Data and Stockholdings Books of Records as of December 31, 2016. This amount includes final taxes of ₱0.17 million which the Company shouldered on behalf of shareholders.

On September 29, 2017, the BOD declared and approved another stock dividends to all common stockholders amounting to ₱2.68 million (equivalent to ₱0.25 per share) based on Financial Statement Data and Stockholdings Books of Records as of December 31, 2016.

Capital Management
The Company's capital management aims to ensure that it maintains strong credit ratings and healthy capital ratios in order to support and sustain its business growth towards maximizing the shareholders' value.

The Company considers total equity as its capital. The Company is not subject to any externally imposed regulatory capital requirements.

13. Net Sales

The composition of net sales follows:

	2017	2016
Branch sales	**₱26,606,639**	₱36,518,485
Head office sales (Note 21)	**25,747,824**	26,098,212
Gross sales	**52,354,463**	62,616,697
Sales discount	**(2,131,460)**	(2,910,657)
Sales returns	**(4,766)**	(2,125)
Net sales	**₱50,218,237**	₱59,703,915

Branch sales pertain to revenue earned through the retail outlets of the Company. Head office sales relate to CARD-MRI Disaster Relief Assistance Program (CDRAP), where the Company supplies medicine and other related goods for disaster relief operations and community health projects of other CARD-MRI entities.

14. General and Administrative Expenses

This account consists of:

	2017	2016
Personnel expenses (Note 16)	**₱4,806,112**	₱6,691,141
Information technology	**2,213,913**	1,670,355
Transportation and travel	**1,199,088**	1,095,570
Janitorial, messengerial, and security	**1,012,569**	1,029,887
Program monitoring and evaluation	**902,059**	623,571
Professional fees	**450,480**	401,240
Seminars and meetings	**340,408**	901,438
Staff training and development	**338,676**	414,795
Supplies and materials	**270,719**	185,435
Rental (Note 18)	**217,895**	466,509
Depreciation (Note 9)	**180,785**	431,696
Utilities	**95,800**	272,450
Supervision and examination	**88,561**	105,976
Amortization (Note 10)	**26,434**	16,595
Others	**515,876**	941,647
	₱12,659,375	15,248,305

Others include insurance, seminars and meetings, repairs and maintenance, janitorial and program, monitoring expenses.

15. **Selling and Distribution Expenses**

This account consists of:

	2017	2016
Personnel expenses (Note 16)	**₱7,108,901**	₱10,070,987
Rental (Note 18)	**1,219,220**	1,639,156
Transportation and travel	**702,522**	998,635
Utilities	**403,898**	512,894
Depreciation (Note 9)	**236,956**	234,970
Taxes and licenses	**121,004**	235,589
Supplies and materials	**162,852**	285,789
Communication and postage	**140,848**	197,608
Amortization (Note 10)	**35,245**	41,486
Information technology	**26,037**	269,766
Staff training and development	**21,062**	100,754
Others	**755,511**	139,985
	₱10,934,056	₱14,727,619

Others include provision for credit losses, insurance expense, repairs and maintenance, janitorial, messengerial and security expense and program monitoring and evaluation.

16. **Personnel Expenses**

This account consists of:

	2017	2016
Salaries and wages	**₱5,927,499**	₱8,575,396
Employee benefits	**5,530,952**	6,495,780
Retirement benefits (Note 17)	**456,562**	1,690,952
	₱11,915,013	₱16,762,128

The distributions of personnel expenses are as follows:

	2017	2016
Selling and distribution expenses (Note 15)	**₱7,108,901**	₱10,070,987
General and administrative expenses (Note 14)	**4,806,112**	6,691,141
	₱11,915,013	₱16,762,128

17. **Retirement Benefits**

The Company, CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), CARD Bank, Inc. (CBI), CARD Leasing and Finance Corporation (CLFC), Rizal Bank Inc. (RBI), CARD, Inc. and Mga Likha ni Inay Inc. (MLNI), maintain a funded and formal noncontributory defined benefit retirement plan - the CARD

MRI Multi-Employer Retirement Plan (MERP) - covering all of their regular employees and CARD Group Employees' Retirement Plan (Hybrid Plan) applicable to employees hired on or after July 1, 2016. MERP and Hybrid Plan comply with the requirements of Republic Act No. 7641 (Retirement Pay Law).

MERP is valued using the projected unit cost method and is financed solely by the Company and its related parties. MERP provides lump sum benefits equivalent to up to 120% of final salary for every year of credited service, a fraction of at least six (6) months being considered as one whole year, upon retirement, death, total and permanent disability, or voluntary separation after completion of at least one year of service with the participating companies.

The date of the latest actuarial valuation report for MERP is December 31, 2017.

The amounts of retirement asset recognized in the statements of financial position follow:

	2017	2016
Fair value of plan assets	**₱8,143,892**	₱8,035,266
Present value of defined benefit obligation	**(2,892,349)**	(3,469,230)
Effect of asset ceiling	**(1,379,284)**	(828,804)
Retirement asset	**₱3,872,259**	₱3,737,232

The composition of retirement expense in 2017 and 2016 as reported under personnel expenses in 'General and administrative expenses' and 'Selling and distribution expenses' in the statements of income follow:

	2017	2016
Interest income on plan assets	**(₱461,398)**	(₱351,544)
Current service cost	**666,095**	1,582,891
Interest expense on retirement obligation	**203,297**	459,605
Interest on the effect of the asset ceiling	**48,568**	–
	₱456,562	₱1,690,952

The movements in the fair value of plan assets follow:

	2017	2016
Balance at beginning of year	**₱8,035,266**	₱6,057,692
Contributions paid by employer	**–**	2,000,000
Benefits paid from plan assets	**–**	(22,853)
Transfers from the plan	**(323,150)**	(142,361)
Interest income	**461,398**	351,544
Return on plan assets	**(29,622)**	(208,756)
Balance at end of year	**₱8,143,892**	₱8,035,266

Details of remeasurement gain on retirement plan follows:

	2017	2016
Actuarial gain on defined benefit obligation	**₱1,123,123**	₱7,527,197
Remeasurement loss on		
Plan asset	**(29,622)**	(208,756)
Change in the effect of asset ceiling	**(501,912)**	(828,804)
Defined benefit income in OCI	**₱591,589**	₱6,489,637

The movements in the present value of obligation follow:

	2017	2016
Balance at beginning of year	**₱3,469,230**	₱9,119,145
Actuarial gains from changes in:		
Financial assumptions	**(925,715)**	(3,406,191)
Experience	**(151,580)**	(3,808,387)
Demographic assumptions	**(45,828)**	(312,619)
Transfers from the plan	**(323,150)**	(142,361)
Current service cost	**666,095**	1,582,891
Benefits paid from retirement plan	**–**	(22,853)
Interest expense on retirement obligation	**203,297**	459,605
Balance at end of year	**₱2,892,349**	₱3,469,230

Total retirement expense in 2017 related to Hybrid Plan amounted to nil.

The latest actuarial valuation report covers reporting period as at December 31, 2017.

The maximum economic benefit of plan assets available is a combination of expected refunds from the plan and reductions in future contributions. The fair value of plan assets by each class as of the end of the reporting period are as follows:

	2017	2016
Cash and cash equivalents	**₱3,356,098**	₱3,450,007
Government securities	**4,134,654**	3,900,153
Loan receivables	**358,331**	627,048
Mutual funds	**38,276**	43,187
Other	**256,533**	284,871
	₱8,143,892	₱8,305,266

All plan assets do not have quoted prices in an active market except for government securities. Cash and cash equivalents are deposited with reputable financial institutions and related parties that are deemed to be standard grade. Loans and receivables, mutual funds and other assets are unrated.

The plan assets have diverse investments and do not have any concentration risk.

The overall investment policy and strategy of the Company's defined benefit plan is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risk of the plans.

The cost of defined benefit retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

	2017	2016
Discount rate:		
January 1	**5.86%**	5.04%
December 31	**5.77%**	5.86%
Future salary increase	**5.00%**	7.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (Decrease) in Present Value of Obligation			
	2017		2016	
	+100	**-100**	+100	-100
Discount rates	**(₱390,662)**	**₱478,499**	(₱547,929)	₱686,930
Future salary increases	**446,195**	**(373,309)**	633,375	(519,716)

The Company plans to contribute ₱1.0 million to the defined benefit retirement plan in 2018.

The average duration of the defined benefit obligation is 15.0 years as at December 31, 2018.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	**₱74,675**	₱ 74,677
More than 1 year to 5 years	**472,895**	463,501
More than 5 years to 10 years	**1,072,327**	1,178,895

18. **Leases**

Operating Lease Agreement
The Company has 10 and 16 outstanding lease contracts as at December 31, 2017 and 2016, respectively, for the lease of branch premises with original lease terms ranging from three (3) years to five (5) years and are renewable upon mutual agreement.

The distribution of rental expenses is as follows:

	2017	2016
Selling and distribution expenses (Note 15)	**₱1,219,220**	₱1,639,156
General and administrative expenses (Note 14)	**217,895**	466,509
	₱1,437,115	₱2,105,665

The minimum lease payments for branch premises in 2017 and 2016 are as follows:

	2017	2016
Within one year	**₱1,206,486**	₱1,539,909
Beyond one year but not more than five years	**1,205,552**	1,985,482
	₱2,412,038	₱3,525,391

Finance Lease Agreement
The Company entered into lease agreements with RISE Financing Company, Inc. covering the office equipment with original term of three (3) years and with acquisition amounting to ₱0.2 million in 2015. The lease agreement provides implicit interest of 18.4%.

Future aggregate minimum lease payments under lease of branch premises as at December 31, 2017 and 2016 are as follows:

	2017	2016
Within one year	**₱30,194**	₱89,332
After one year but not more than five years	–	29,776
Total minimum lease payments	**30,194**	119,108
Less amounts representing finance lease charges	**1,627**	14,345
Present value of minimum lease payments	**₱28,567**	₱104,763
Current	**₱28,567**	₱76,541
Noncurrent	–	28,222
	₱28,567	₱104,763

19. **Income Taxes**

Current tax regulations provide that RCIT rate shall be 30.00%. Interest expense allowed as a deductible expense is reduced by 33.00% of interest income subjected to final tax.

In addition, effective September 1, 2002, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR allowed as a deductible expense is limited to the actual EAR paid or incurred (recorded under 'Representation and entertainment' in the statements of income) but not to exceed 0.50% of net revenue for companies engaged in the sale of goods. The deductible representation and entertainment expense amounted to ₱425 and ₱0.02 million in 2017 and 2016, respectively.

An MCIT of 2.00% on modified gross income is computed and compared with RCIT. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. Imposition of MCIT will commence on the Company's fourth taxable year immediately following the year in which the Company commenced its business operations. The Company is subjected to MCIT beginning 2014. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

Under Philippine tax laws, the Company is subject to VAT and subject to other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes.

The provision for (benefits from) income tax consists of:

	2017	2016
Current:		
Regular	**₱190,430**	₱604,345
Final	**66,324**	40,988
Excess of MCIT over RCIT	**297,364**	28,042
	554,117	673,375
Deferred	**(152,780)**	(759,888)
	₱401,337	(₱86,513)

Components of deferred tax assets (liabilities) follow:

	2017	2016
Deferred tax assets on:		
Accumulated vacation leave	**₱171,967**	₱64,508
Allowance for inventory write-down	**145,132**	75,581
Unamortized past service cost	–	267,346
	317,099	407,435
Deferred tax liabilities on:		
Retirement asset	**(1,161,678)**	(1,121,170)
Advance rent	**(4,669)**	(110,816)
	(1,166,347)	(1,231,986)
	(₱849,248)	(₱824,551)

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. The Company considers projected future taxable income, reversal of temporary differences, and tax planning strategies in making the assessment based on the historical income and projections of future taxable income.

The Company believes that portion of the deferred taxes may not be realized in the future. Accordingly, the Company did not set up deferred tax assets on the following:

	2017	2016
Excess MCIT over RCIT	**₱578,386**	₱281,022
Allowance for credit losses	**33,501**	126,039
Unamortized past service cost	**363,253**	66,710

Deferred income tax related to remeasurement gain taken to OCI amounted to ₱0.2 million and ₱2.0 million in 2017 and 2016, respectively.

The Company incurred MCIT amounting to ₱0.5 million and ₱0.3 million for 2017 and 2016, which it can use against income tax liability for the next three (3) years (until 2020 and 2019), respectively.

Reconciliation of the statutory income tax to the effective income tax follows:

	2017	2016
Statutory income tax	**₱338,867**	₱645,476
Income tax effects of:		
Interest income subject to final tax	**(33,162)**	(20,494)
Change in unrecognized deferred taxes	**92,032**	(759,888)
Nondeductible expenses	**3,600**	48,393
Effective income tax	**₱401,337**	(₱86,513)

20. **Related Party Transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance or the relationship, and not merely the legal form.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- post-employment benefit plans for the benefit of the Company's employees; and
- other related parties within the CARD-MRI Group.

Transactions with retirement plans
Under PFRS, certain post-employment benefit plans are considered as related parties. CARD-MRI's MERP is a stand-alone entity assigned in facilitating the contributions to retirement starting 2005.

Remunerations of Directors and Other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company considers the BOD and senior management to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The remuneration of the members of key management included under 'Personnel expenses' in the statements of income follows:

	2017	2016
Salaries and other short-term benefits	**₱1,645,528**	₱1,469,190
Post-employment benefits	**1,790,176**	1,198,443
	₱3,435,704	₱2,667,633

Other related party transactions
Transactions between the Company and its key management personnel meet the definition of related party transactions. Transactions between the Company and related parties within the CARD-MRI, also qualify as related party transactions.

Related party transactions and balances as at year end for the years under December 31, 2017 and 2016 are as follows:

	December 31, 2017		
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Stockholder			
Trade receivables		**₱2,979,551**	Pertains to sale of medicines and expenses incurred in community visits.
Billings	**₱17,469,312**		
Collections	**(16,372,776)**		
Accounts payable		–	Pertains to share in expenses and rental payments.
Charges	**956,480**		
Payments	**(967,293)**		
Affiliates			
Cash in bank		**19,412,351**	This pertains to checking and savings account with annual interest rate ranging from 0.5% to 4.0%.
Deposits	**56,758,471**		
Withdrawals	**(45,459,467)**		
Interest income	**318,801**		This pertains to interest earned from savings account, current account and time deposits.
Trade receivables		**186,993**	Pertains to sale of medicines and supplies and expenses incurred in community visits.
Billings	**9,044,847**		
Collections	**(14,976,683)**		
Accounts payable		–	Pertains to lease of office computers, vehicle, service charges and share in expenses.
Charges	**154,960**		
Payments	**(154,960)**		
Finance lease payable		**28,567**	Pertains to lease of office computers.
Additions	–		
Payments	**76,196**		
Interest expense	**13,135**		Pertains to interest on finance lease liability.

	December 31, 2016		
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Stockholder			
Trade receivables		₱1,883,015	Pertains to sale of medicines and expenses incurred in community visits.
Billings	₱21,142,891		
Collections	(20,243,802)		
Accounts payable		10,813	Pertains to share in expenses and rental payments.
Charges	1,116,510		
Payments	(1,106,197)		
Affiliates			
Cash in bank		8,113,347	This pertains to checking and savings account with annual interest rate ranging from 0.5% to 1.8%.
Deposits	49,221,848		
Withdrawals	(48,886,934)		
Interest income	154,500		This pertains to interest earned from savings account, current account and time deposits.
Trade receivables		6,118,829	Pertains to sale of medicines and supplies and expenses incurred in community visits.
Billings	15,926,608		
Collections	(9,817,225)		
Accounts payable		–	Pertains to lease of vehicle, service charges and share in expenses.
Charges	3,834,559		
Payments	(3,836,680)		
Finance lease payable		104,763	Pertains to lease of office computers.
Additions	–		
Payments	(64,263)		
Interest expense	25,070		Pertains to interest on finance lease liability.
Retirement plan			Pertains to the funded and formal noncontributory defined benefit retirement plan of the Company that is handled by CARD MERP (see Note 17)
Contributions		2,000,000	

No provision for credit losses were recognized on related party receivables for the years ended December 31, 2017 and 2016.

21. Notes to Statements of Cash Flows

Noncash activities of the Company consist of the following:

	2017	2016
Noncash investing activities		
Application of creditable withholding taxes over income tax payable	**₱196,346**	₱458,840
Reclassification of property and equipment to intangible asset	**–**	123,872
Noncash financing activities		
Declaration of stock dividends	**6,307,857**	–

22. Approval of the Issuance of the Financial Statements

The accompanying financial statements of the Company were reviewed and approved for issuance by the Company's BOD on April 18, 2018.

23. Supplementary Information Required under Revenue Regulations (RR) 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

Value-added Tax (VAT)
The National Internal Revenue Code of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its purchases from other VAT-registered individuals or corporations are subject to input VAT. VAT rate is 12.0%, effective February 1, 2006. The Company's application for VAT registration has already been approved on May 6, 2013.

Output VAT declared in the Company's VAT return filed in 2017 amounted to ₱6.0 million.

Details of the Company's input tax claimed during 2016 are as follows:

Balance at beginning of period	₱–
Current year's purchases of:	
Goods other than capital goods	2,901,044
Services	330,783
Total input VAT available	3,231,827
Claims against output VAT	(3,231,827)
Balance of input VAT at end of period	₱–

Other Taxes and Licenses

The components of 'Taxes and licenses' recognized in the statement of income in 2017 follow:

Business permits and licenses	₱204,996
Others	17,789
	₱222,785

Withholding Taxes

The taxes withheld paid and accrued which are reported as part of others under 'trade and other payable' as at December 31, 2017 are as follow:

	Paid	Payable
Withholding tax on compensation and benefits	₱509,026	₱71,767
Expanded withholding tax	339,271	29,457
	₱848,297	₱101,224

Tax Assessments and Cases

In 2017, the Company received a Letter of Authority (LOA) from BIR for the year ended 2015 to examine their books of accounts and other accounting records for all internal revenue taxes. The Company is still negotiating with the BIR for the said assessment.