# BOTICARD ANNUAL REPORT 2021

DIGITALLY EMPOWERING COMMUNITIES TOWARDS ECONOMIC RECOVERY

# CONTENTS

# ABOUT THE COVER


The strength of CARD Mutually Reinforcing Institutions (CARD MRI) is more evident in the face of adversity. For thirty-five years, the group of social development institutions has been fighting its way in the wilderness of what may be the most poignant obstacle of many—poverty.

As we continue our journey of helping more marginalized communities get past the poverty line and maneuver the effects of a health crisis such as the COVID-19 pandemic, we do not plan of leaving anyone behind. We aim to pull the ropes as one.

Our covers seek to provide a glimpse of how our communities, both families and digital facilities, join forces to pull up and rise from the effects of the pandemic. From the head of the household, down to the next generation, our communities have a role to take in recovering from this obstacle.

With our front cover, the digital hand plays a vital role in reaching out to families and supporting them through technology-driven initiatives.

With our back cover, we want to show the true faces of people whom we honor and empower through our devotion and commitment to fighting poverty.

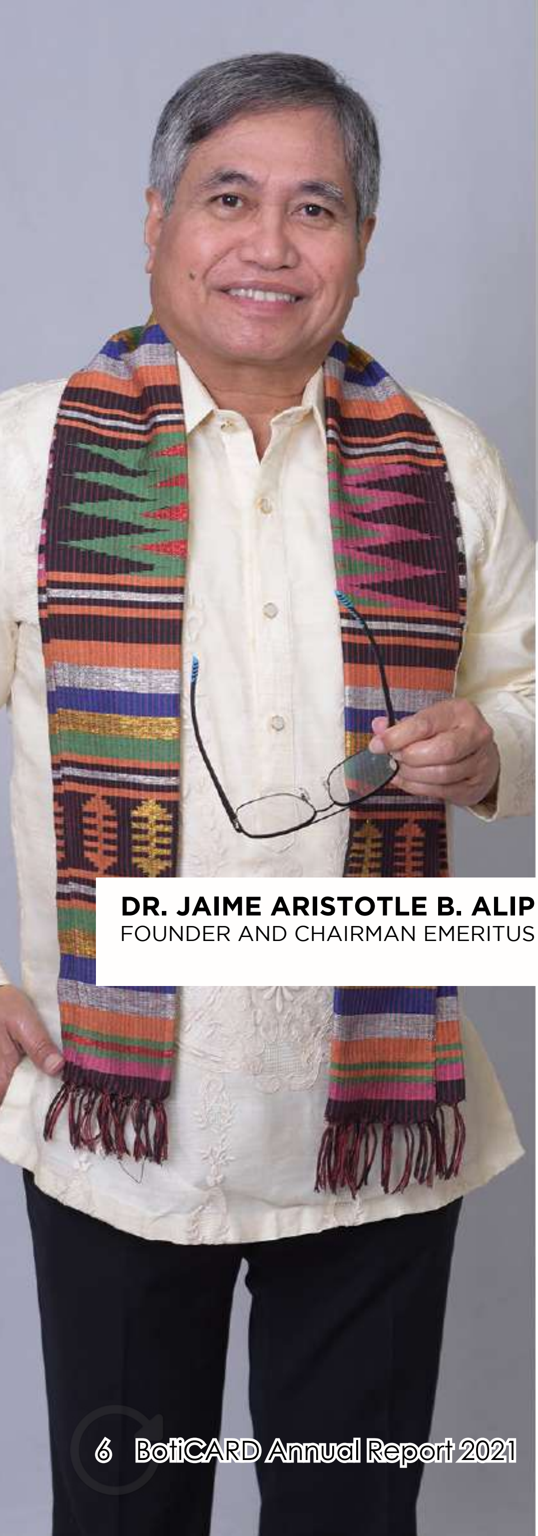
# VISION

BotiCARD Inc. is CARD MRI's champion in providing health care through quality affordable medicine and health protection to achieve a healthy and vibrant community.

# MISSION

To uplift the quality of health and health services by making affordable and quality medicines available to CARD members, their families and communities to implement a unique strategy of making a quality, safe and effective medicines available in the community;

Be a trailblazer in the promotion of healthcare in the Philippines and other countries by implementing a health protection package and by upholding ethical practices in its desire to provide quality affordable medicines.



DR. JAIME ARISTOTLE B. ALIP
FOUNDER AND CHAIRMAN EMERITUS

# FORTIFYING OUR DEFENSES

## MESSAGE FROM THE FOUNDER AND CHAIRMAN EMERITUS

With CARD MRI's 30 years of pursuing the future of a poverty-free Philippines, we are constantly reminded that financial aid is not enough to help Filipinos move out of poverty.

Poverty is supposed to be addressed in all its facets. At CARD MRI, we believe that to achieve that future, one must take a holistic approach in addressing that problem, including the health of the country. What good would money do if the family's health is always at risk? That is why, to keep our people healthy while they pursue their dreams, we established BotiCARD, CARD MRI's source of quality and affordable medicine. As we look at the second year of the pandemic, we are proud to say that BotiCARD reached above and beyond to keep CARD MRI and its people healthy.

Together with the rest of CARD MRI's institutions, BotiCARD utilized the organization's digitalization to its utmost potential, bringing its products and services to the communities far and wide. With innovation and the heart to serve, BotiCARD fortifies people's natural defenses against COVID-19, through innovative and creative uses of technology to deliver quality generic medicines and other hygiene products to our clients' doorsteps. To keep up with the demand of the pandemic, BotiCARD metaphorically and literally delivered their products to CARD MRI's offices and communities, giving the community a fighting chance against the virus.

Moreover, our pharmacists have embodied the true meaning of being frontliners from the very beginning of our battle against COVID-19. This 2021, these people have remained devoted to their role by visiting our clients and providing them with reliable health information that will help them remain knowledgeable and prepared against various diseases including COVID-19. Indeed, it cannot be denied that BotiCARD stands as the vanguard of our war against COVID-19 and our communities' lack of access in quality healthcare products and services. With our continuous technological innovations, we expect a better service delivery to effectively fortify our defenses and recover from the setbacks of last year.

The year 2021 was a year of recovery for CARD MRI after a rough 2020. As we apply all the lessons of 2020 this year, we have adjusted accordingly to the new normal and is able to provide the quality service we are known for, and that includes BotiCARD. With BotiCARD's innovations and new strategies in providing the backup that the country needs as it wrestles with COVID-19, every family can be rest assured that whatever their pharmaceutical needs are, BotiCARD has got them covered. Because of the digital steps we have taken, we are now walking towards a brighter future for the public.

**ARISTEO A. DEQUITO**
MANAGING DIRECTOR

# A RETURN TO FORM

## MESSAGE FROM THE MANAGING DIRECTOR

The year 2021 for CARD MRI was a time of revitalization. It was during this year that we were able to recuperate, not only from the operational setbacks brought by the pandemic, but most especially from the health impact of COVID-19. By intensifying our digital transformation efforts, we were able to enhance our healthcare services to communities near our areas of coverage through BotiCARD.

Our steadfast dedication to serve through our affordable healthcare products and services is clearly reflected by the many accomplishments BotiCARD was able to achieve this year, and we are now proud to share a few of our highlights while serving our clients and communities during this pandemic.

### Growing Stronger

As CARD MRI's champion in providing affordable and quality healthcare to our communities, BotiCARD goes alongside CARD MRI in its digital transformation initiatives to serve the public effectively and efficiently. With this, BotiCARD intensified

MedHatid, an online delivery service that aims to bring the pharmacy's health and hygiene products to the doorsteps of every resident in the community. BotiCARD accomplished this by using Facebook as its main social media platform and by stationing MedHatid Agents across CARD MRI communities.

To promote cashless transactions, BotiCARD also encouraged its customers to use konek2CARD, a mobile banking application used by CARD MRI staff and clients.

## True to Course

As an institution under CARD MRI, BotiCARD also believes in the power of building relationships with its clients for a more effective and genuine service delivery. As frontliners, our BotiCARD pharmacists and pharmacy assistants visited the members and clients of CARD's microfinance institutions (MFIs) during center meetings where they shared their knowledge on various health-related topics that are timely and relevant for the community.

This shows our dedication to providing healthcare information to communities that are usually out of reach. It shows the courage of our staff in pushing themselves to their limits just to serve our communities. Looking Forward, Straining Ahead

Thanks to our lessons from the first year of the pandemic and our substantial push for digital transformation, we were able to recover and return to form. We shall continue to absorb and assess all our experiences as we work under this pandemic so that we can properly align our strategies and approaches for the benefit of our clients and communities. While the uncertainties of the pandemic remain, we now have a better grasp of the situation, and as always, we are prepared to strengthen ourselves and adapt to the situation if need be. Once again, BotiCARD and the whole CARD MRI community looks forward to the horizon of another year, and we assure everyone that we shall remain true to our vision of a healthy, poverty-free Philippines.

# HEALTH AT OUR FINGERTIPS

**ROSENDA P. AQUINO, RPh**
CHAIRPERSON AND PRESIDENT

Adjusting to the new normal is still a work in progress, despite the country's two-year war with COVID-19. With health as the enemy's target, people are still living in fear and anxiety of what may happen to their family once a member is infected. The situation looks grim, but for BotiCARD, CARD MRI's source of affordable and quality medicine, it is an opportunity to step up and help the Filipino people.

Because of its operational advancements, BotiCARD used technology to its advantage as a way of overcoming the challenges of 2021. As CARD MRI pushes for digitalization for a safer and healthier future, BotiCARD moves forward with its peers to provide a consistent quality of service.

Due to the limited movement of people, BotiCARD had to become creative and considerate when it came to delivering their quality products and services. Out of the meticulous planning came the MedHatid initiative. The program aims to bring the pharmacy's products to the doorsteps of its clients and customers, all while following the safety protocols set by their local government. Despite the physical limitations, BotiCARD found ways of giving people what they need.

To accommodate the customers' orders safely, BotiCARD used its official Facebook page to manage the inquiries of those in need of medicine. Shoppers can also pay digitally, using e-money such as CARD MRI's very own konek2CARD, a mobile banking application used by its staff and clients. Conveniently serving the people, BotiCARD continues its mission without risking the safety of its patrons.

With the increasing demand for medicine as families try to strengthen their immune system, MedHatid delivers the orders of their customers directly to their homes through MedHatid Agents. These are members and clients of CARD MRI's microfinance institutions (MFIs) tasked to collect the orders of their fellow clients and to ensure its safe delivery. From pharmacy to their doorstep, BotiCARD makes sure that its customers' health is ready and prepared to overcome various health-related challenges. The MedHatid service was launched in San Pablo City, Laguna and now, Manileños can also avail the safe acquisition of vitamins and supplements through the program.

Besides the extended reach through the MedHatid initiative, one of the achievements of the institution is in the short period of time that supplies were scarce, BotiCARD is still consistent in its service of bringing affordable medicine to the various centers of CARD MRI's MFIs. These centers are groups of CARD MRI clients found in various barangays country and are the very people whom CARD MRI serve.

BotiCARD went as far as paying a visit to center meetings, all while following the safety guidelines by the local government. Center meetings are conducted to announce CARD MRI news to its clients, but during the pandemic, meetings are only done to process the clients' transactions. During these meetings, we also shared various health-related information and tips to help them better understand the pandemic. Topics such as the similarities and differences between generic and branded medicines and how to protect themselves from the virus were just some of the topics that were discussed. We combine medicine with the right information to better protect the people.

Due to the demand imposed to pharmacies during the pandemic, BotiCARD also enlisted the help of key role players in keeping the business running to help the communities. Professional warehouse pharmacists and extra hands helped a lot when it comes to managing our supplies. Besides management, they also made sure that there is even distribution for all.

These accomplishments are just the baby steps in our journey of moving forward. With the lessons of the year, plans are already mapped with the aim to elevate CARD MRI clients' experience with BotiCARD. One is the continuous improvement of the MedHatid initiative. Besides the development of MedHatid Application that will further streamline the process of purchasing health products, partnerships with Tricycles Operators and Drivers Association (TODA) are also in motion as to further reach more people.

This coming 2022, BotiCARD is now ready to face the challenges with high hopes in its heart and loads of experience under its belt, all this to continue providing our communities with the best form of assistance when it comes to securing the health of their families. As CARD MRI aims to eradicate poverty, BotiCARD, as one of CARD MRI's institutions, wishes nothing more than a healthy Filipino family, that is why we face challenges head on, moving forward for the country.

# 2021 IN NUMBERS

**Clients Served**

**1,568,710**

**Institutions Served**

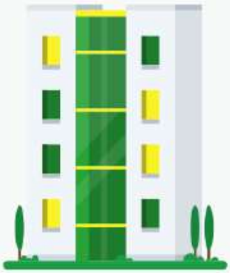
**22**

**Number of Partners**

**2**

**MedHatid Agents**

**7**



# 1

**Head Office**

# 12

**Branches**

# 43

**Staff**


# 1

**Warehouse**



# THIS IS OUR 2021



BotiCARD Products
Order Here!

# BOARD OF DIRECTORS

**Ms. Rosenda P. Aquino, RPh**
Chairperson/President

**Ms. Jocelyn D. Dequito**
Vice Chairperson/Corporate Tresurer

**Mr. Aristeo A. Dequito**
Director

**Dr. Roderick G. Belen**
Director

**Atty. Clifford C. Burkley**
Director

**Dr. Kenneth Y.Hartigan Go**
Director

**Mr. Rolando A. Romasanta**
Independent Director

# MANAGEMENT COMMITTEE

**Ms. Rosenda P.Aquino, RPh**
Chairperson and President

**Ms. Celeste B. Arceo**
AVP for Admin and Finance

**Ms. Rona R. Nava**
Deputy Director for Operations

# OUR PHYSICAL PRESENCE

## HEAD OFFICE AND WAREHOUSE
Sampaloc, Manila

## PHARMACY OUTLETS

**Dolores Branch**
Marquez St., Brgy. Bagong Anyo,
Dolores, Quezon

**San Pablo City Branch**
M. Paulino St., cor. P. Burgos St.,
Brgy. VII-D, San Pablo City, Laguna

**Lipa Branch**
Claro M. Recto Ave., Brgy. 4,
Lipa City, Batangas

**Masbate Branch**
Quezon St., Pating,
Masbate City, Masbate

**Pinamalayan Branch**
Mabini St., cor. Quezon St.,
Pinamalayan, Oriental Mindoro

**Tagum Branch**
Purok Caimito, Brgy. Mankilam,
Tagum City, Davao Del Norte

**Sampaloc Branch**
#755, B. Moret St.,
Sampaloc, Manila

**Legazpi Branch**
Jackson Barra Building, Rizal St.,
Extension, Legazpi City, Albay

**San Carlos Branch**
Bugallon St.,
San Carlos, Pangasinan

**Davao Branch**
Corner Anda & Rizal St., Brgy. 3-A,
Poblacion District, Davao City

**Tacloban Branch**
#182, Salazar St., Brgy. 43,
Tacloban City, Leyte

**Oroquieta Branch**
Purok 1, Enerio St., Layawan,
Oroquieta City, Misamis Occidental

# OUR PARTNERS

- Generika
- Zuellig Pharma

# AUDITED FINANCIAL STATEMENTS

2021

**BOTICARD INC.**
STATEMENT OF FINANCIAL POSITION

| | Note | | As of December 31 2021 | | 2020 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **CURRENT ASSETS** | | | | | |
| Cash and cash equivalents | *2, 4* | **P** | **44,798,192** | P | 34,355,502 |
| Trade and other receivables - net | *2, 5* | | **1,517,171** | | 4,285,882 |
| Inventories | *2, 3, 6* | | **12,653,743** | | 12,714,591 |
| Other current assets | *7* | | **396,729** | | 1,167,855 |
| Total Current Assets | | | **59,365,835** | | 52,523,830 |
| **NONCURRENT ASSETS** | | | | | |
| Property and equipment - net | *2, 8* | | **1,305,733** | | 1,440,730 |
| Intangible assets - net | *2, 9* | | **454,533** | | 397,425 |
| Retirement asset - net | *2, 16* | | **3,804,474** | | 4,337,934 |
| Investment in equity securities | *2, 10* | | **2,607,126** | | - |
| Other noncurrent assets | *7* | | **430,763** | | 430,763 |
| Total Noncurrent Assets | | | **8,602,629** | | 6,606,852 |
| **TOTAL ASSETS** | | **P** | **67,968,464** | P | 59,130,682 |
| **LIABILITIES AND EQUITY** | | | | | |
| **CURRENT LIABILITIES** | | | | | |
| Trade and other payables | *2, 11* | **P** | **2,575,366** | P | 2,996,533 |
| Income tax payable | *2, 18* | | **2,205,158** | | 129,976 |
| Total Current Liabilities | | | **4,780,524** | | 3,126,509 |
| **EQUITY** | | | | | |
| Capital stock | *2, 12* | | **54,172,590** | | 47,221,375 |
| Retained earnings | | | **9,015,350** | | 8,782,798 |
| Total Equity | | | **63,187,940** | | 56,004,173 |
| **TOTAL LIABILITIES AND EQUITY** | | **P** | **67,968,464** | P | 59,130,682 |

**BOTICARD INC.**

STATEMENT OF INCOME

| | | For the Years Ended December 31 | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| **NET SALES** | **P** | **100,246,795** | P | 92,630,508 |
| **COST OF SALES** | | **53,464,673** | | 59,231,840 |
| **GROSS PROFIT** | | **46,782,122** | | 33,398,668 |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | **21,587,935** | | 14,473,865 |
| **SELLING AND DISTRIBUTION EXPENSES** | | **15,174,909** | | 11,409,587 |
| **OPERATING INCOME** | | **10,019,278** | | 7,515,216 |
| **OTHER INCOME (CHARGES) - NET** | | **(681,925)** | | 727,493 |
| **INCOME BEFORE INCOME TAX** | | **9,337,353** | | 8,242,709 |
| **PROVISION FOR INCOME TAX** | | **2,959,441** | | 2,418,104 |
| **TOTAL INCOME** | **P** | **6,377,912** | P | 5,824,605 |

**BOTICARD INC.**

STATEMENT OF CHANGES IN EQUITY

| | | As of December 31 | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| **CAPITAL STOCK** | **P** | **54,172,590** | | 47,221,375 |
| **RETAINED EARNINGS** | | | | |
| Balance at beginning of year | | **8,782,798** | | 12,958,193 |
| Stock dividend declaration | | **(2,500,000)** | | (10,000,000) |
| Cash dividend declaration | | **(3,645,360)** | | - |
| Net income after income tax | | **6,377,912** | | 5,824,605 |
| Balance at end of year | | **9,015,350** | | 8,782,798 |
| **TOTAL EQUITY** | **P** | **63,187,940** | P | 56,004,173 |

**BOTICARD INC.**

STATEMENT OF CASH FLOWS

| | | Years Ended December 31 | | |
|---|---|---|---|---|
| | | **2021** | | 2020 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before income tax | **P** | **9,337,353** | P | 8,242,709 |
| Adjustments for: | | | | |
| Interest income | | **(494,257)** | | (526,436) |
| Depreciation and amortization | | **1,038,586** | | 854,982 |
| Retirement expense | | **334,943** | | 134,534 |
| Actuarial gain (loss) on retirement plan | | **369,217** | | (172,799) |
| Operating income before working capital changes | | **10,585,842** | | 8,532,990 |
| Changes in operating assets and liabilities | | | | |
| (Increase) decrease in the amounts of: | | | | |
| Trade and other receivables | | **2,768,711** | | 578,731 |
| Inventories | | **60,848** | | (4,664,806) |
| Other assets | | **771,126** | | (1,030,185) |
| Decrease in the amounts of: | | | | |
| Trade and other payables | | **(421,167)** | | (7,419,596) |
| Net cash generated from (used in) operations | | **13,765,360** | | (4,002,866) |
| Interest income received | | **494,257** | | 526,436 |
| Income taxes paid | | **(884,259)** | | (2,960,175) |
| Contribution to retirement fund | | **(170,700)** | | (10,145) |
| Net cash provided by (used in) operating activities | | **13,204,658** | | (6,446,750) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of property and equipment | | **(580,388)** | | (445,684) |
| Acquisition of intangible assets | | **(380,893)** | | - |
| Increase in investment in securities | | **(2,607,126)** | | - |
| Disposal of property and equipment | | **584** | | - |
| Net cash used in investing activities | | **(3,567,823)** | | (445,684) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Cash dividends paid | | **(3,645,360)** | | - |
| Proceeds from issuance of capital stock | | **4,451,215** | | 420,075 |
| Net cash flows provided by financing activities | | **805,855** | | 420,075 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **10,442,690** | | (6,472,359) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **34,355,502** | | 40,827,861 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | **P** | **44,798,192** | P | 34,355,502 |

## 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 755-B Moret St., Sampaloc, Manila, as amended on April 30, 2018.

The Company has one (1) warehouse and twelve (12) branches, and one (1) warehouse and eleven (12) branches as of December 31, 2021 and 2020, respectively, located in the Philippines.

## 2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The Company's financial statements have been prepared under the historical cost basis. The financial statements are presented in Philippine peso (P), which is the Company's functional currency. All amounts are rounded to the nearest peso unless otherwise stated.

<u>Statement of Compliance</u>
The financial statements of the Company have been prepared in accordance with the Philippine Financial Reporting Standards for Small Entities (PFRS for SEs) as approved by the Financial Reporting Standards Council, Board of Accountancy and the Securities and Exchange Commission (SEC).

### Significant Accounting Policies

<u>Presentation of Financial Statements</u>
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 an intention to settle on a net basis or to realize the assets 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 expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies of the Company.

<u>Current versus Non-current Classification</u>
The Company presents assets and liabilities in statement of financial position based on current/noncurrent classification. An asset is current when it is:

i. Expected to be realized or intended to be sold or consumed in the normal operating cycle;
ii. Expected to be realized within twelve months after the reporting date; or
iii. Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets are classified as non-current.

A liability is current when:

i. It is expected to be settled in the normal operating cycle;
ii. It is due to be settled within twelve months after the reporting date; or
iii. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

All other liabilities are classified as non-current.

Cash and Cash Equivalents

Cash includes cash on hand and in bank and is carried in the statement of financial position of nominal amount. Cash in bank represents savings deposit in a bank that earns interest at the respective bank deposit rates.

Financial Instruments

*Initial recognition and measurement of financial instruments*

An entity shall recognize a financial asset or a financial liability only when the entity becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognized at transaction price (including transaction costs) unless the arrangement constitutes, in effect, a financing transaction. A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

*Financial instruments that are debt instruments measured at amortized cost*

These are debt instruments, such as receivables or payables, which satisfy all of the following conditions:

a) Return to the holder is a fixed amount; a fixed rate of return over the life of the instrument; a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or some combination of such fixed rate and variable rates, provided that both the fixed and variable rates are positive.

b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events.

d) There are no conditional returns or repayment provisions except for the variable rate of return described in (a) and prepayment provisions described in (c).

Debt instruments that meet the conditions above are measured at amortized cost using the effective interest method. Cash and debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (i.e. net of impairment) unless the arrangement constitutes, in effect, a financing transaction. If the arrangement constitutes a financing transaction, the Company shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Classified under financial assets that are debt instruments measured at amortized cost are the Company's 'Trade and other receivables' account in the statement of financial position.

Classified under financial liabilities measured at amortized cost are the Company's 'Trade and other payable' account in the statement of financial position.

*Derecognition of Financial Assets and Liabilities*
*i. Financial assets*
A financial asset is derecognized when:
1. the contractual rights to the cash flows from the financial asset have expired or are settled; or
2. the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

*ii. Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When 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.

*Impairment of Financial Assets*
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or 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 since 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 principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Inventories
Inventories are stated at the lower of cost and its market value. Costs of inventories include all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. The Company’s inventories are accounted for on a first-in, first-out basis.

At each reporting date, inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its market value. If an item of inventory (or group of similar items) is impaired, the Company shall reduce the carrying amount of the inventory (or the group) to its market value. Market value is determined as the probable selling price to willing buyers as of reporting date. Any decrease in inventories arising from write down of cost to market value is an impairment loss and it is recognized immediately in the statement of income.

Prepayments
Prepayments 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 is carried at cost less accumulated depreciation and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item. All other repair and maintenance expenses are charged to current operations as incurred.

Depreciation is calculated on a straight-line basis over the useful lives of assets as follows:

| | |
|---|---|
| Leasehold improvement | 3 years |
| Office equipment | 3 years |
| Office furniture and fixtures | 3 years |
| Building | 10 years |

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

If there is an indication that there has been a significant change in depreciation rate, estimated useful life (EUL) or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

When items of property and equipment are retired or otherwise disposed of, their cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of income in the year the items are sold or retired.

Fully depreciated assets are still carried in the accounts until they are no longer in use.

Capital Stock

Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value.

Retained Earnings

Retained earnings represents the cumulative balance of periodic net income or loss of the Company, net of any dividend declarations.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment was made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts and sales tax. The Company is acting as a principal in all its arrangement transactions.

*Sales*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, net of any trade discounts, prompt payment discounts and volume rebates.

*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 is recognized only when cash is received.

Expense Recognition

Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:

i. on the basis of a direct association between the costs incurred and the earning of specific items of income;
ii. on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or

iii. immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

*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 less any related purchase returns, discounts and allowances. Such costs are recorded in the statement of income upon recognition of sales.

Retirement Benefits
The Company operates a defined benefit retirement plan which requires contribution 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 end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. 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:
i. Service cost
ii. Net interest on the net defined benefit liability or asset
iii. Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on nonroutine 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 an 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 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.

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.

Income Taxes
The Company accounted its income taxes under the taxes payable method. Under the taxes payable method, the Company recognizes a current tax liability for tax payable on taxable profit for the current and past periods. If the amount paid for the current and past periods exceeds the amount payable for those periods, the Company shall recognize the excess as a current tax asset.

The Company shall measure its current tax assets or liabilities using the tax rates and laws that have been enacted or substantively enacted by the reporting date. The Company shall not discount current tax assets and liabilities.

The Company is subject to MCIT as it is on the 4th year of its business operations of which MCIT is 2% of the gross income of the Company at the end of the year. The MCIT is compared with the regular income tax, and whichever is higher shall be the amount of income tax to be paid.

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

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

Foreign Currency Transactions
Transactions in foreign currencies are translated into Philippine peso at exchange rates which approximate those prevailing on transaction dates. Monetary assets and liabilities denominated in foreign currencies are restated at the closing exchange rate prevailing as of reporting date. Exchange gains and losses arising from the settlement and restatement of foreign currency denominated monetary assets and liabilities are recognized in the statement of income.

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

## 3. Significant Accounting Judgments and Estimates

The preparation of financial statements in accordance with PFRS for SEs requires the Company to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses, and disclosure 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.

Judgment and estimates are continually evaluated and are based on expectations of future events that are believed to be reasonable under the circumstances.

As of December 31, 2021 and 2020, management assessed that there is no significant judgment exercised in respect to the preparation of the financial statements.

<u>Estimates</u>

*(a) 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 market value. An inventory is written down to the market value when such amount is lower than cost, with the loss immediately recognized in the statement of income.

The carrying values of the Company's inventories are disclosed in Note 6.

*(b) Present value of retirement obligation*

The cost of defined benefit retirement plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. The present value of the retirement liability and fair value of plan assets are disclosed in Note 16.

## 4. Cash and Cash Equivalents

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Cash on hand | **P** | **318,111** | P | 396,000 |
| Cash in banks | | **15,238,617** | | 20,009,289 |
| Cash equivalents | | **29,241,464** | | 13,950,213 |
| | **P** | **44,798,192** | P | 34,355,502 |

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents represent time deposits with terms of 30 to 365 days replacements which bear annual interest rates of 1.25% to 1.75% and 2.5% to 3.5% in 2021 and 2020, respectively.

Interest income earned from cash and cash equivalents amounted to P494,257 and P526,436 in 2021 and 2020, respectively.

## 5. Trade and Other Receivables - Net

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Trade receivables | **P** | **2,216,286** | P | 4,397,551 |
| Allowance for credit losses | | **(699,115)** | | (111,669) |
| | **P** | **1,517,171** | P | 4,285,882 |

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.

## 6. Inventories

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

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Cost | P | 13,120,008 | P | 12,854,208 |
| Allowance for inventory losses | | (466,265) | | (139,617) |
| Carrying value | | 12,653,743 | | 12,714,591 |
| Market value | | 25,352,263 | | 30,032,814 |
| Lower of cost and market value | P | 12,653,743 | P | 12,714,591 |

Inventories recognized as part of cost of sales in the statement of income amounted to P53,464,673 and P59,231,840 in 2021 and 2020, respectively.

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Inventories at beginning of year | P | 12,714,591 | P | 8,049,785 |
| Add/Deduct: Reversals (additions) of inventory allowance | | (326,648) | | 344,157 |
| Adjusted Inventories at beginning of year | | 12,387,943 | | 8,393,942 |
| Add: Net purchases | | 53,730,473 | | 63,552,489 |
| Inventories available for sale | | 66,118,416 | | 71,946,431 |
| Less: cost of sales | | 53,464,673 | | 59,231,840 |
| Inventories at end of year | P | 12,653,743 | P | 12,714,591 |

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

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Balance at beginning of year | P | 139,617 | P | 483,774 |
| Additions (reversals) during the year | | 326,648 | | (344,157) |
| Balance at end of year | P | 466,265 | P | 139,617 |

## 7. Other Assets

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Current** | | | | |
| Refundable deposits | P | 281,259 | P | 32,026 |
| Prepaid expenses | | 115,470 | | 21,728 |
| Prepaid tax | | - | | 1,114,101 |
| Total Other Current Assets | | 396,729 | | 1,167,855 |
| **Noncurrent** | | | | |
| Prepaid expenses | | 254,255 | | 254,255 |
| Refundable deposits | | 176,508 | | 176,508 |
| Total Other Noncurrent Assets | | 430,763 | | 430,763 |
| **Total** | P | 827,492 | P | 1,598,618 |

Prepaid tax consists of excess input tax over output tax.

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.

Prepaid expenses consist of unexpired insurance premiums for fire and vehicle, and advance rental for the lease of office and branch premises.

## 8. Property and Equipment - Net

Details of property and equipment - net as of December 31, 2021 are as follows:

| | 2021 | | | | |
|---|---|---|---|---|---|
| | Leasehold Improvement | Office Equipment | Office Furniture and Fixtures | Building | Total |
| **Cost** | | | | | |
| Balance at beginning of year | P 1,520,317 | P 2,141,111 | P 187,155 | P 561,000 | P 4,409,583 |
| Additions | 58,430 | 503,468 | 18,490 | - | 580,388 |
| Disposals | (17,500) | (47,998) | - | - | (65,498) |
| Balance at end of year | 1,561,247 | 2,596,581 | 205,645 | 561,000 | 4,924,473 |
| **Accumulated Depreciation** | | | | | |
| Balance at beginning of year | 1,139,869 | 1,530,034 | 186,750 | 112,200 | 2,968,853 |
| Depreciation | 216,034 | 437,018 | 5,650 | 56,100 | 714,802 |
| Disposals | (16,917) | (47,998) | - | - | (64,915) |
| Balance at end of year | 1,338,986 | 1,531,465 | 192,400 | 168,300 | 3,618,740 |
| **Net Book Value** | **P 222,261** | **P 1,065,116** | **P 13,245** | **P 392,700** | **P 1,305,733** |

Details of property and equipment - net as of December 31, 2020 are as follows:

| | Leasehold Improvement | Office Equipment | Office Furniture and Fixtures | Building | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at beginning of year | P 1,337,526 | P 2,287,412 | P 200,555 | P 561,000 | P 4,386,493 |
| Additions | 182,791 | 262,893 | - | - | 445,684 |
| Disposals | - | (409,193) | (13,400) | - | (422,593) |
| Balance at end of year | 1,520,317 | 2,141,111 | 187,155 | 561,000 | 4,409,583 |
| **Accumulated Depreciation** | | | | | |
| Balance at beginning of year | 917,865 | 1,626,040 | 200,149 | 56,100 | 2,800,154 |
| Depreciation | 222,004 | 313,188 | 1 | 56,100 | 591,293 |
| Disposals | - | (409,193) | (13,400) | - | (422,593) |
| Balance at end of year | 1,139,869 | 1,530,034 | 186,750 | 112,200 | 2,968,853 |
| **Net Book Value** | **P 380,448** | **P 611,077** | **P 405** | **P 448,800** | **P 1,440,730** |

In 2019, the construction in progress that amounted to P561,000 has been finished and was transferred to the building account. The building, which is used as a pharmacy, was constructed on land owned by CARD-MRI Development Institute, Inc. (CMDI) which is a related party (see Note 19).

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:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Selling and distribution expense | P | **256,174** | P | 334,043 |
| General and administrative expense | | **332,776** | | 257,249 |
| | P | **588,950** | P | 591,292 |

## 9. Intangible Assets - Net

The movements in this account follow:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at beginning of year | P | **976,109** | P | 976,109 |
| Additions | | **380,893** | | - |
| Balance at end of year | | **1,357,002** | | 976,109 |
| | | | | |
| **Accumulated amortization** | | | | |
| Balance at beginning of the year | | **578,684** | | 314,994 |
| Amortization | | **323,785** | | 263,690 |
| Balance at end of the year | | **902,469** | | 578,684 |
| **Net book value** | P | **454,533** | P | 397,425 |

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:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| General and administrative expense | P | **323,885** | P | 263,690 |
| Selling and distribution expense | | **125,751** | | - |
| | P | **449,636** | P | 263,690 |

## 10. Investment in Securities

On July 22, 2021. the Company paid CARD Employees Multi-Purpose Cooperative for 44,997 shares with a par value of P50 of CARD MRI ASTRO Laboratories, Inc. that amounted to P2,607,126 (or with an additional consideration of P357,276). The management does not intend to sell or assign the investment in securities within a year after the reporting period.

## 11. Trade and Other Payables

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Accounts payable | P | **1,195,740** | P | 2,416,750 |
| Accrued expenses | | **497,575** | | 411,641 |
| | | **1,693,315** | | 2,828,391 |
| | | | | |
| **Nonfinancial liabilities** | | | | |
| VAT payable | | **413,038** | | - |
| Others | | **469,013** | | 168,142 |
| | | **882,051** | | 168,142 |
| Total | P | **2,575,366** | P | 2,996,533 |

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.

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

VAT payable pertains to the excess of the output VAT from sales over the input VAT from purchases of goods and services.

## 12. Equity

Capital Stock

The Company's capital stock consists of:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Shares** | | **Amount** | Shares | | Amount |
| Common stock - P5 par value, 20,000,000 authorized shares | | | | | | |
| Subscribed | **14,581,440** | **P** | **72,907,202** | 14,081,440 | P | 70,407,202 |
| Subscription receivable | **(3,746,922)** | | **(18,734,612)** | (4,637,166) | | (23,185,828) |
| Issued and outstanding | **10,834,518** | **P** | **54,172,590** | 9,444,275 | P | 47,221,375 |

Movements in capital stock follow:

| | **2021** | | | 2020 | | |
|---|---|---|---|---|---|---|
| | **Shares** | | **Amount** | Shares | | Amount |
| Capital stock at beginning of year | **9,444,275** | **P** | **47,221,375** | 7,360,260 | P | 36,801,300 |
| Issuances of shares of stocks from settlement of subscriptions receivables | **890,243** | | **4,451,215** | 84,015 | | 420,075 |
| Stock dividends | **500,000** | | **2,500,000** | 2,000,000 | | 10,000,000 |
| Capital stock at end of year | **10,834,518** | **P** | **54,172,590** | 9,444,275 | P | 47,221,375 |

Dividends

On November 29, 2021, the Board of Directors approved the declaration of cash dividends amounting to P3,645,360 (equivalent to P0.25 per share), based on Financial Statement Data and Stockholdings Books of Records as of September 30, 2021.

On March 31, 2021, the Board of Directors approved the declaration of stock dividends amounting to P2,500,000 or equivalent to P5.00 per share or common stock.

On August 31, 2020, the Board of Directors approved the declaration of stock dividends amounting to P10,000,000, equivalent to P5.00 per share of subscribed common stock based on July 2020 financial statement data.

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:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Gross sales | **P** | **107,077,898** | P | 93,471,430 |
| Sales discount | | **(6,831,103)** | | (840,922) |
| Net sales | **P** | **100,246,795** | P | 92,630,508 |

Gross sales pertain to revenue earned through the retail outlets, and 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. Expenses

### a. General and Administrative Expenses

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Personnel expenses | **P** | **7,353,055** | P | 5,358,449 |
| Program monitoring and evaluation | | **4,975,344** | | 431,468 |
| Information technology | | **1,833,003** | | 1,967,979 |
| Transportation and travel | | **1,637,576** | | 1,139,026 |
| Janitorial, messengerial, and security | | **1,263,105** | | 1,162,904 |
| Provision on doubtful accounts | | **587,446** | | - |
| Professional fees | | **530,111** | | 799,972 |
| Depreciation | | **332,776** | | 257,249 |
| Supplies and materials | | **453,903** | | 414,681 |
| Rental | | **426,908** | | 308,066 |
| Others | | **381,809** | | 295,846 |
| Provision on inventory losses | | **326,648** | | - |
| Utilities | | **267,198** | | 185,859 |
| Communication and postage | | **228,415** | | 177,387 |
| Amortization | | **323,885** | | 263,690 |
| Seminars and meetings | | **183,535** | | 379,464 |
| Taxes and licenses | | **169,767** | | 140,391 |
| Insurance expense | | **132,342** | | 155,668 |
| Advertising and publicity | | **86,347** | | 78,415 |
| Repair and maintenance | | **48,108** | | 93,097 |
| Staff training and development | | **34,279** | | 120,167 |
| Supervision and examination | | **9,375** | | 10,587 |
| Membership and dues | | **3,000** | | 3,000 |
| Grants and donations | | **-** | | 687,500 |
| Research and documentation | | **-** | | 42,500 |
| Representation expense | | **-** | | 500 |
| | **P** | **21,587,935** | P | 14,473,865 |

Others include burial assistance, penalties, bank charges, and COVID-19 related expenses such as rapid testing expenses, flu vaccination, disinfection expenses, employee's quarantine expenses, and financial assistance to affected employee.

**b. Selling and Distribution Expenses**

This account consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Personnel expenses | **P** | **7,330,135** | P | 5,491,057 |
| Transportation and travel | | **2,247,301** | | 899,288 |
| Rental | | **1,763,094** | | 1,610,383 |
| Program monitoring and evaluation | | **811,922** | | 824,774 |
| Utilities | | **647,288** | | 450,817 |
| Taxes and licenses | | **597,535** | | 499,057 |
| Supplies and materials | | **449,206** | | 373,261 |
| Information technology | | **256,714** | | 202,920 |
| Depreciation | | **256,174** | | 334,043 |
| Communication and postage | | **254,069** | | 230,118 |
| Janitorial, messengerial, and security | | **214,921** | | 371,661 |
| Amortization | | **125,751** | | - |
| Staff training and development | | **10,017** | | 11,308 |
| Others | | **210,782** | | 110,900 |
| | **P** | **15,174,909** | P | 11,409,587 |

Others include provision for credit losses, insurance expense, repairs and maintenance, and COVID-19 related expenses such as rapid testing expenses, flu vaccination, disinfection expenses, and employee's quarantine expenses.

*Personnel Expenses mainly consist of:*

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Salaries and wages | **P** | **8,024,936** | P | 6,414,045 |
| Employee benefits and contribution expenses | | **6,323,311** | | 4,300,927 |
| Retirement benefits | | **334,943** | | 134,534 |
| | **P** | **14,683,190** | P | 10,849,506 |

## 15. Other Income (Charges)- Net

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Interest income | **P** | **494,257** | P | 526,436 |
| Service fee income | | **822,973** | | - |
| Dividend income | | **224,985** | | - |
| Actuarial gain (loss) on retirement plan | | **(369,217)** | | 172,799 |
| Fines and penalties | | **(1,854,923)** | | - |
| Others | | **-** | | 28,258 |
| | **P** | **(681,925)** | P | 727,493 |

## 16. Retirement Benefits

The Company, CARD MRI Development Institute, Inc., CARD Mutual Benefit Association, Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency, Inc., CARD Business Development Service Foundation, Inc., CARD MRI Information Technology, Inc., CARD Employees Multi-Purpose Cooperative, Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), CARD Bank, Inc., CARD Leasing and Finance Corporation, CARD MRI Rizal Bank Inc., CARD, Inc., Mga Likha ni Inay Inc., CARD MRI Property Holdings, Inc., CARD MRI Publishing House Inc. and CARD MRI Hijos Tours Inc., 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, 2021.

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

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Fair value of plan assets | **P** | **10,564,579** | P | 9,976,238 |
| Present value of defined benefit obligation | | **(5,900,778)** | | (4,694,571) |
| Effect of asset ceiling | | **(859,327)** | | (943,733) |
| Retirement asset | **P** | **3,804,474** | P | 4,337,934 |

The composition of retirement expense in 2021 and 2020 as reported under personnel expenses in 'General and administrative expenses' and 'Selling and distribution expenses' in the statement of income follow:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Interest income on plan assets | **P** | **(387,986)** | P | (510,718) |
| Current service cost | | **505,291** | | 393,927 |
| Interest expense on retirement obligation | | **181,210** | | 148,532 |
| Interest on the effect of the asset ceiling | | **36,428** | | 102,793 |
| | **P** | **334,943** | P | 134,534 |

The movements in the fair value of plan assets follow:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **9,976,238** | P | 8,826,086 |
| Interest income | | **387,986** | | 510,718 |
| Remeasurement gain / (loss) - return on plan assets | | **49,948** | | (145,855) |
| Transfers to the plan | | **38,921** | | 775,144 |
| Benefits paid from plan assets | | **(59,214)** | | - |
| Contributions paid by employer | | **170,700** | | 10,145 |
| Balance at end of year | **P** | **10,564,579** | P | 9,976,238 |

The movements in the present value of obligation follow:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Balance at beginning of year | **P** | **4,694,571** | P | 2,681,086 |
| Actuarial (gains) losses from changes in: | | | | |
| Financial assumptions | | **491,202** | | (190,537) |
| Experience | | **63,621** | | 908,991 |
| Demographic assumptions | | **(14,824)** | | (22,572) |
| Benefits paid from plan assets | | **(59,214)** | | - |
| Transfers to the plan | | **38,921** | | 775,144 |
| Current service cost | | **505,291** | | 393,927 |
| Interest expense on retirement obligation | | **181,210** | | 148,532 |
| Balance at end of year | **P** | **5,900,778** | P | 4,694,571 |

The movements in the net actuarial gains/losses recognized in Other Income (Charges) - Net follow:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Remeasurement gain – change in the effect of asset ceiling | **P** | **(120,834)** | P | (1,014,536) |
| Actuarial (gain) loss – defined benefit obligation | | **539,999** | | 695,882 |
| Remeasurement (gain) loss – plan assets | | **(49,948)** | | 145,855 |
| Actuarial gain on retirement plan | **P** | **369,217** | P | (172,799) |

The latest actuarial valuation report covers reporting period as of December 31, 2021 and 2020.

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | **40.74%** | 81.00% |
| Debt instruments - government bonds | **42.95%** | 1.00% |
| Debt instruments - other bonds | **5.58%** | 1.00% |
| Loan receivables | **8.46%** | 12.00% |
| Other | **2.27%** | 5.00% |
| | **100.00%** | 100.00% |

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:

| | 2021 | 2020 |
|---|---|---|
| Discount rate | **5.11%** | 3.86% |
| Future salary increase | **5.00%** | 3.00% |

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | 2020 | | | |
| | | +100 | | -100 | | +100 | | -100 |
| Discount rates | **P** | **(628,812)** | **P** | **743,886** | P | (515,075) | P | 612,695 |
| Future salary increases | | **737,093** | | **(634,979)** | | 611,790 | | (523,682) |

The average duration of the defined benefit obligation at the end of each reporting period is 12.8 years and 12.8 years in 2021 and 2020, respectively.

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

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Less than 1 year | **P** | **300,003** | P | 107,651 |
| More than 1 year to 5 years | | **1,523,629** | | 691,899 |
| More than 5 years to 10 years | | **4,747,859** | | 1,546,471 |

## 17. Leases

Operating Lease Agreement
The Company has 13 and 11 outstanding lease contracts as of December 31, 2021 and 2020, 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:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Selling and distribution expenses | **P** | **1,763,094** | P | 1,610,383 |
| General and administrative expenses | | **426,908** | | 308,066 |
| | **P** | **2,190,002** | P | 1,918,449 |

## 18. Income Taxes

a. Optional Standard Deduction
Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2021 and 2020, the Company opted to continue claiming itemized deduction.

b. Tax Computation

| Regular Corporate Income Tax (RCIT) | | 2021 | | 2020 |
|---|---|---|---|---|
| Revenue | P | **100,246,795** | P | 92,630,508 |
| Less: Cost of Sales and Services | | **(53,464,673)** | | (59,231,840) |
| Gross Income from Operation | | **46,782,122** | | 33,398,668 |
| Add: Other income | | **822,973** | | 28,258 |
| Total Gross Income | | **47,605,095** | | 33,426,926 |
| Less: Itemized deduction | | **(35,585,656)** | | (25,737,520) |
| Taxable income | P | **12,019,439** | P | 7,689,406 |
| | | | | |
| Income tax expense (current) - at 25% and 30%, respectively | P | **3,004,860** | P | 2,306,822 |
| | | | | |
| MCIT - at 1% and 2%, respectively | | **476,051** | | 668,539 |
| | | | | |
| Total income tax due | | **3,004,860** | | 2,306,822 |
| Income taxes paid and tax credits | | **(799,702)** | | (2,176,846) |
| Income tax payable | P | **2,205,158** | P | 129,976 |

c. Reconciliation

Reconciliation between accounting income and taxable income is presented below:

| Regular Corporate Income Tax (RCIT) | | 2021 | | 2020 |
|---|---|---|---|---|
| Accounting income | P | **9,337,353** | P | 8,242,709 |
| Permanent differences: | | | | |
| Interest income subject to final tax | | **(494,257)** | | (526,436) |
| Dividend income | | **(224,985)** | | - |
| Fines and penalties | | **1,854,923** | | 21,543 |
| Interest expense | | **98,851** | | - |
| Temporary differences: | | | | |
| Provision for inventory losses | | **326,648** | | - |
| Provision for doubtful account | | **587,446** | | - |
| Contributions to retirement fund | | **(170,700)** | | (10,145) |
| Retirement expense | | **334,943** | | 134,534 |
| Actuarial (gain) loss on retirement plan | | **369,217** | | (172,799) |
| Taxable income | P | **12,019,439** | P | 7,689,406 |

The provision for income tax consists of:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Income tax - current | P | **3,004,860** | P | 2,306,822 |
| Income tax adjustment (effect of CREATE Act in 2020) | | **(192,235)** | | - |
| Final tax | | **146,816** | | 111,282 |
| | P | **2,959,441** | P | 2,418,104 |

## 19. 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.

Transactions with retirement plans
Under PFRS for SEs, 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.

The total remuneration of the members of key management included under 'Personnel expenses' in the statement of income amounted to P3,476,136 and P2,781,023 as of December 31, 2021 and 2020, respectively.

Other related party transactions
Transactions between the Company and related parties within the CARD-MRI, also qualify as related party transactions.

a. Usufruct Agreement with CMDI
On March 15, 2020, CMDI, which is a member of the CARD MRI group of companies, granted usufruct to the Company over a portion of the parcel of land located at Brgy. Mankilam, Tagum City to establish the Company's pharmacy (see Note 8). The usufruct shall continue to be in force until December 31, 2027, unless terminated or extended by the parties. The Company has the right to use and occupy the property for the establishment of its pharmacy only and may enter into any contract that is related only to the establishment of its pharmacy, subject to certain detailed conditions on the use of the property.

The Company assumes full responsibility for the maintenance, repair, and preservation of the property. During the term of usufruct, the Company is responsible for the taxes and other governmental charges that are levied upon the property. At the termination or expiration of the term of the usufruct, the alterations, improvements, additions, and changes, at CMDI's option, become the
b. Related party transactions and balances as of year end for the years under December 31, 2021 and 2020 are as follows:

| | December 31, 2021 | | |
|---|---|---|---|
| **Category** | **Amount / Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| **Stockholder** | | | |
| Trade receivables | | **P (817,911)** | Pertains to the sale of medicines and expenses incurred in community visits. |
| Billings | **P 31,657,294** | | |
| Collections | **32,475,205** | | |
| Accounts payable | | **-** | Pertains to share in expenses and rental payments. |
| Charges | **3,345,536** | | |
| Payments | **3,345,536** | | |
| **Affiliates** | | | |
| Cash in bank | | **16,462,369** | This pertains to checking and savings account with an annual interest rate ranging from 0.5% to 4.0%. |
| Deposits | **129,424,694** | | |
| Withdrawals | **113,299,731** | | |
| Interest income | **337,405** | | This pertains to interest earned from the savings account, current account, and time deposits. |
| Trade receivables | | **(7,760,398)** | Pertains to the sale of medicines and supplies and expenses incurred in community visits. |
| Billings | **56,497,798** | | |
| Collections | **64,258,197** | | |
| Accounts payable | | **(7,273)** | Pertains to lease of office computers, vehicle, service charges and share in expenses. |
| Charges | **4,585,872** | | |
| Payments | **4,593,145** | | |

| Category | December 31, 2020 Amount / Volume | Outstanding Balance | Nature, Terms and Conditions |
|---|---|---|---|
| Stockholder | | | |
| Trade receivables | | P 865,675 | Pertains to the sale of medicines and expenses incurred in community visits. |
| Billings | P 29,835,931 | | |
| Collections | 28,970,261 | | |
| Accounts payable | | 858,254 | Pertains to share in expenses and rental payments. |
| Charges | 1,704,461 | | |
| Payments | 846,207 | | |
| Affiliates | | | |
| Cash in bank | | 22,435,170 | This pertains to checking and savings account with an annual interest rate ranging from 0.5% to 4.0%. |
| Deposits | 83,145,530 | | |
| Withdrawals | (74,748,692) | | |
| Interest income | 474,818 | | This pertains to interest earned from the savings account, current account, and time deposits. |
| Trade receivables | | 787,547 | Pertains to the sale of medicines and supplies and expenses incurred in community visits. |
| Billings | 20,421,536 | | |
| Collections | 19,633,989 | | |
| Accounts payable | | 809,977 | Pertains to lease of office computers, vehicle, service charges and share in expenses. |
| Charges | 10,478,480 | | |
| Payments | 9,668,503 | | |

## 20. Subsequent Events

**a. CREATE Act**

On March 26, 2021, the Republic Act (RA) 11534, known as "The Corporate Recovery or Tax incentives for Enterprises Act" (Create Act), was passed into law. The salient provisions of the Create Act applicable to the Company are as follow:

- Effective July 1, 2020, the corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5,000,000 and with total assets not exceeding P100,000,000, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed at 20%. All other domestic corporations and resident foreign corporations will be subject to 25% income tax;
- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% effective July 1, 2020, to June 20, 2023;
- The imposition of improperly accumulated earnings is repealed.

The Company assessed the effect of the changes mentioned above on its statement of financial position and statement of comprehensive income as shown below:

| | As of December 31, 2020 | Effect of changes in tax rates | Adjusted amount based on the reduced tax rates |
|---|---|---|---|
| Statement of Comprehensive Income | | | |
| Current tax expense | 2,306,822 | (192,235) | 2,114,587 |
| Net income for the year | 5,824,605 | 192,235 | 6,016,840 |
| Statement of Financial Position | | | |
| Prepaid income tax | 1,114,100 | 62,259 | 1,176,359 |
| Income tax payable | 129,976 | (129,976) | - |
| Statement of Changes in Equity | | | |
| Retained earnings | 8,782,798 | 192,235 | 8,975,033 |

**b. COVID-19 Impacts and Subsequent Events**

Since December 31, 2019 to December 31, 2021, the spread of COVID-19 has severely impacted many economies around the globe. In many countries, businesses were forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. In the Philippines, varying quarantine measures were implemented beginning on March 17, 2020.

The Company's management has assessed and addressed the impacts of COVID-19. As of December 31, 2021 and 2020, all COVID-19 determinable impacts on the Company's 2021 and 2020 financial statements, as well as other subsequent events, that are adjusting events have been adjusted. Other determinable subsequent events that were not adjusting events have been disclosed as needed.

The Company had not been significantly affected by COVID-19 in 2021 and 2020. It has adequate funds and liquidity for its subsequent operations.

## 21. 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 Board of Directors on March 26, 2022.

## 22. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

***I. Revenue Regulation No. 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.

| | | |
|---|---|---|
| Sales/Receipts: | | |
| VATable sales/receipts | P | **97,175,768** |
| Exempt sales/receipts | | **3,075,289** |
| | P | **100,251,056** |

| | | |
|---|---|---|
| Purchases: | | |
| Domestic Purchases of Ordinary Goods | P | **54,366,909** |
| Domestic Purchases of Services | | **7,428,555** |
| | P | **61,795,464** |

Details of the Company's VAT are as follows:

| | | |
|---|---|---|
| Output Tax | P | **11,661,531** |
| Input Tax: | | |
| Domestic Purchases of Ordinary Goods | | **(6,524,029)** |
| Domestic Purchases of Services | | **(891,427)** |
| VAT Payable | | **4,246,076** |
| Overpayment from previous period | | **(205,622)** |
| Less: Tax Payments | | **(3,627,416)** |
| VAT still due | P | **413,038** |

Other Taxes and Licenses

| | | |
|---|---|---|
| Business permits and licenses | P | **615,734** |
| Documentary stamp tax | | **142,179** |
| Registration fees | | **6,000** |
| Others | | **3,389** |
| | P | **767,302** |

Withholding Taxes

The taxes withheld paid and accrued which are reported as part of others under 'trade and other payable' as of December 31, 2021 are as follow:

| | | Paid | | Payable |
|---|---|---|---|---|
| Withholding tax on compensation and benefits | P | **63,344** | P | **84,772** |
| Expanded withholding tax | | **933,421** | | **61,949** |
| | P | **996,765** | P | **146,721** |

Tax Assessments and Cases

The Company received a Letter of Authority (LOA-055-2021-00000089) dated February 5, 2021 from the BIR for the investigation of all internal revenue tax liabilities for the period January 1, 2018 to December 31, 2018. In 2021, the Company paid the assessed deficiency taxes (Income tax, VAT, Documentary stamp tax, and Final withholding tax) that amounted to P500,318, including interest, surcharges, and compromise penalties.

The Company received a Letter of Authority (SN: eLA201500002237/LOA-055-2020-00000169) dated August 27, 2020 from the BIR for the investigation of all internal revenue tax liabilities for the period January 1, 2019 to December 31, 2019. In 2021, the Company paid the assessed deficiency taxes (Income tax, VAT, Documentary stamp tax, and Final withholding tax) that amounted to P1,700,196, including interest, surcharges, and compromise penalties.

The Company received a Letter of Authority (SN: eLA201500005056/LOA-055-2021-00000230) dated July 27, 2021 from the BIR for the investigation of all internal revenue tax liabilities for the period January 1, 2020 to December 31, 2020. As of December 31, 2021, this is still pending with the BIR. On March 25, 2022, the Company received a Notice of Discrepancy (dated March 24, 2022) with attached report of investigation that showed a total of P500,437 of tax discrepancies. It is stated in the NOD that it is not yet a deficiency tax assessment.

BotiCARD Pharmacy

*Mabisang Gamot, Abot-Kaya, Kalusugan ang Una!*

CARD MRI

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