Mga Likha ni Inay, Inc.

Financial Statements
for the Year Ended December 31, 2015
and 2014, and the Period from May 8 to
December 31, 2014

and

Independent Auditors' Report

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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 AUDITORS' REPORT

The Board of Directors
Mga Likha ni Inay, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mga Likha ni Inay, Inc. which comprise the statements of financial position as at December 31, 2015 and 2014, and statements of comprehensive income, statements of changes in equity (capital deficiency), and statements of cash flows for the year ended December 31, 2015 and for the period from May 8 to December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Mga Likha ni Inay, Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and for the period from May 8 to December 31, 2014 in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

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 18 to the financial statements is presented for purpose 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 Mga Likha ni Inay, Inc. The information has been subjected to the auditing procedures applied in our audits 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
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March 4, 2015, valid until March 3, 2018
PTR No. 5321607, January 4, 2016, Makati City

March 11, 2016

MGA LIKHA NI INAY, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash (Note 4)	**₱2,099,028**	₱950,271
Trade and other receivables (Note 5)	**336,713**	200,411
Inventories (Note 6)	**1,476,255**	1,761,043
Other current assets (Note 7)	**462,361**	21,000
Total Current Assets	**4,374,357**	2,932,725
Noncurrent Asset		
Property and equipment (Note 8)	**158,150**	81,928
Total Noncurrent Asset	**158,150**	81,928
	₱4,532,507	₱3,014,653
LIABILITIES AND EQUITY		
Liabilities		
Trade and other payables (Note 9)	**₱2,801,276**	₱3,665,025
Retirement liability (Note 10)	**596,542**	–
Total Liabilities	**3,397,818**	3,665,025
Equity (Capital Deficiency)		
Capital stock (Note 11)	**2,617,800**	1,000,000
Deficit	**(1,483,111)**	(1,650,372)
Total Equity (Capital Deficiency)	**1,134,689**	(650,372)
	₱4,532,507	₱3,014,653

See accompanying Notes to Financial Statements.

MGA LIKHA NI INAY, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD FROM MAY 8, 2014 TO DECEMBER 31, 2014*

	Years Ended December 31	
	2015	2014
REVENUE		
Gross sales (Note 16)	**₱9,531,439**	₱3,833,572
Cost of sales (Note 12)	**8,153,242**	2,962,189
Gross income	**1,378,197**	871,383
Interest income (Note 4)	**1,829**	400
Other income (Note 16)	**1,503,415**	–
	2,883,441	871,783
EXPENSES		
Compensation and employee benefits (Note 14)	**1,012,824**	188,116
Provisions for (reversal of) inventory losses (Note 6)	**(600,954)**	709,353
Actuarial loss (Note 10)	**472,157**	–
Supplies and materials	**317,121**	164,643
Outsourced services	**243,170**	650,107
Management and professional fee	**214,374**	61,600
Transportation and travel	**183,701**	125,959
Rent (Note 13)	**141,858**	283,537
Communication and postage	**120,910**	27,422
Seminars and meetings	**88,814**	45,506
Program monitoring and evaluation	**80,097**	53,394
Depreciation expense (Note 8)	**50,638**	13,214
Utilities	**45,435**	10,309
Taxes and licenses	**45,094**	80,058
Repairs and maintenance	**27,431**	64,857
Information technology	**17,559**	1,100
Insurance	**14,780**	7,419
Miscellaneous	**240,805**	35,481
	2,715,814	2,522,075
INCOME (LOSS) BEFORE INCOME TAX	**167,627**	(1,650,292)
PROVISION FOR INCOME TAX (Note 15)	**366**	80
TOTAL COMPREHENSIVE INCOME (LOSS)**	**₱167,261**	(₱1,650,372)

* The Company was registered with the Securities and Exchange Commission and started commercial operations on May 8, 2014.

**There are no other comprehensive income in 2015 and 2014.

See accompanying Notes to Financial Statements.

MGA LIKHA NI INAY, INC.

STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD FROM MAY 8, 2014 TO DECEMBER 31, 2014*

	Capital Stock (Note 11)	**Deficit**	**Total**
At January 1, 2015	**₱1,000,000**	**(₱1,650,372)**	**(₱650,372)**
Issuance of capital stocks	**1,617,800**	**–**	**1,617,800**
Net income for the period	**–**	**167,261**	**167,261**
At December 31, 2015	**₱2,617,800**	**(₱1,483,111)**	**₱1,134,689**
Issuance of capital stocks	₱1,000,000	₱–	₱1,000,000
Net loss for the period	–	(1,650,372)	(1,650,372)
At December 31, 2014	₱1,000,000	(₱1,650,372)	(₱650,372)

* The Company was registered with the Securities and Exchange Commission and started commercial operations on May 8, 2014.

See accompanying Notes to Financial Statements.

MGA LIKHA NI INAY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
AND THE PERIOD FROM MAY 8, 2014 TO DECEMBER 31, 2014*

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**₱167,627**	(₱1,650,292)
Adjustments for:		
Provisions for (reversal of) inventory losses (Note 6)	**(600,954)**	709,353
Retirement expense (Note 10)	**596,542**	–
Depreciation (Note 8)	**50,638**	13,214
Interest income on deposits	**(1,829)**	(400)
Operating income (loss) before changes in operating assets and liabilities	**212,024**	(928,125)
Decrease (increase) in:		
Trade and other receivables (Note 5)	**(136,302)**	(200,411)
Inventories (Note 6)	**885,742**	(2,470,396)
Other current assets	**(441,361)**	(21,000)
Increase (decrease) in trade and other payables (Note 9)	**(863,749)**	3,665,025
Net cash generated from (used in) operations	**(343,646)**	45,093
Income tax paid	**(366)**	(80)
Interest received (Note 4)	**1,829**	400
Net cash provided by (used in) operating activities	**(342,183)**	45,413
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 8)	**(126,860)**	(95,142)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock (Note 11)	**1,617,800**	1,000,000
NET INCREASE IN CASH	**1,148,757**	950,271
CASH AT BEGINNING OF YEAR	**950,271**	–
CASH AT END OF YEAR (Note 4)	**₱2,099,028**	₱950,271

* The Company was registered with the Securities and Exchange Commission and started commercial operations on May 8, 2014.

See accompanying Notes to Financial Statements.

MGA LIKHA NI INAY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Company Information

Mga Likha ni Inay, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 2014. The main purpose of the Company is to engage in manufacturing, selling, advertising, promoting, consolidating, and trading of products of the members and clients of Center for Agriculture and Rural Development-Mutually Reinforcing Institutions (CARD-MRI).

The Company is 40.0%-owned by CARD-Business Development Service Foundation, Inc. (the Parent Company).

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

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying 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 unless otherwise indicated.

Statement of Compliance
The accompanying financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). As allowed by Section 3.19, *Financial Statement Presentation* of PFRS for SMEs, the Company only presented a statement of comprehensive income since the Company has no items of other comprehensive income in any of the periods for which the financial statements are presented.

Cash
Cash includes cash on hand and in bank. Cash in bank represents savings deposit in bank that earns interest at the respective bank deposit rates.

Financial Instruments - Initial Recognition and Subsequent Measurement
Date of recognition
A financial asset or a financial liability is recognized only when the Company becomes a party to the contractual provisions of the instrument.

Initial recognition of financial instruments
All financial assets and financial liabilities are initially measured at fair value, which is normally the transaction price. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, financial assets that are debt instruments at amortized cost, financial assets that are unquoted equity instruments at cost less impairment, and loan commitments at cost less impairment. Financial liabilities are classified into the following categories: financial liabilities at FVPL and financial liabilities at amortized cost.

Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2015 and 2014, the Company has no loan commitments at cost less impairment, financial instruments at FVPL and financial assets that are unquoted equity instruments at cost less impairment.

Financial assets that are debt instruments at amortized cost
This category includes receivables and cash in bank. After initial measurement, these financial assets are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. 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 effective interest rate (EIR).

Financial liabilities at amortized cost
This category includes trade and accounts payable, which are not designated as at FVPL and where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, these financial liabilities are subsequently measured at amortized cost using the effective interest method. 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.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized only 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; or
3. the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Company derecognizes the asset, and recognizes separately any rights and obligations retained or created in the transfer.

If a transfer does not result in derecognition because the Company has retained significant risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The asset and liability shall not be offset. In subsequent periods, the Company recognizes any income on the transferred asset and any expense incurred on the financial liability.

Financial liabilities
A financial liability (or a part of a financial liability) is derecognized only when it is extinguished (i.e., when the obligation specified in the contract is discharged, is cancelled or expires). 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 comprehensive income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of Financial Assets
The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

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 into bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows.

For instruments measured at amortized cost, the impairment loss is the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's original EIR. If such a financial instrument has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR determined under the contract.

For instruments measured at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate (which will necessarily be an approximation) of the amount (which might be zero) that the Company would receive for the asset if it were to be sold at the reporting date.

If in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Reversal of allowance for impairment losses' in the statement of comprehensive income.

Inventories
Inventories are stated at the lower of cost and its net realizable 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.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. NRV for inventories represent the related replacement costs. Any decrease in inventories arising from impairment is recognized in profit or loss in the statement of comprehensive income.

Impairment of Inventories
At each reporting date, inventories are assessed for impairment, i.e. the amount is not fully recoverable because of damage, obsolescence or declining selling prices. The Company measures impairment loss by comparing the carrying amount of each item of inventory with its selling price less cost to sell. If an item of inventory is impaired, its carrying amount is reduced to selling price less cost to sell and an impairment loss is recognized immediately in the statement of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of inventories is increased to the revised estimate or its recoverable amount but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive 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.

Depreciation is calculated on a straight-line basis over the useful life of three (3) 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.

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

Trade and Other Payables
Trade payables are obligations on the basis of normal credit terms and do not bear interest. These are recognized in the period in which the related money, goods, or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognized.

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.

Deficit
Deficit represents the cumulative balance of periodic net income or loss and dividend declarations, if any.

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. Revenue is measured at the fair value of the consideration received, 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.

Cost and Expense Recognition
Costs and expenses are recognized in the statement of comprehensive 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.

Costs and expenses are recognized in the statement of comprehensive income:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- 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
- 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 statements of financial position as an asset.

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:

- 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 comprehensive 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 comprehensive 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 profit or loss in the period in which they arise. Remeasurements are not reclassified to the statement of comprehensive 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 comprehensive income on a straight-line basis over the lease term.

Income Taxes

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax

Deferred tax is provided, using the balance sheet 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 temporary differences that are expected to increase taxable profit in the future. 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). Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered. The Company is not yet subject to MCIT as it only started its commercial operations in 2014.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustment is recognized in the statement of comprehensive income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (loss) of the periods in which it expects the deferred tax assets to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable profits will be available against which the future income tax deductions can be utilized.

Provisions

Provisions are recognized when: (a) the Company has an obligation at the reporting date as a result of a past event; (b) it is probable (i.e., more likely than not) that the entity will be required to transfer economic benefits in settlement; (c) and the amount of the obligation can be estimated reliably. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimates.

Contingencies

Contingent liabilities are not recognized in the financial statements. They 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.

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 SMEs 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.

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

Judgments

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates

(a) *Impairment of trade and other receivables*

The Company assesses its trade receivables for impairment at each reporting date. As at December 31, 2015 and 2014, the Company determined that there is no objective evidence that the amounts are not recoverable. The carrying amounts of trade and other receivables are disclosed in Note 5.

(b) *Impairment of non-financial assets*

The Company assesses impairment on inventories and property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- Significant or prolonged decline in fair value of the asset
- Significant underperformance relative to expected historical or projected future operating results
- Significant changes in the manner of use of the acquired assets or the strategy for overall business
- Significant negative industry or economic trends

As at December 31, 2015 and 2014, the carrying values of inventories and property and equipment are disclosed in Notes 6 and 8, respectively.

(c) *Recognition of deferred tax asset*

The Company reviews the net carrying amount of deferred tax asset at each reporting date and adjusts it, using valuation allowance, to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax income tax assets to be utilized. 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 strategies.

As at December 31, 2015 and 2014, the Company recognized deferred tax assets but provided full valuation allowance on the basis of future expectations as disclosed in Note 15.

(d) *Present value of retirement obligation*

The cost of defined benefit pension 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 at 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 10.

4. Cash

This account consists of:

	2015	2014
Cash in bank	**₱2,074,028**	₱930,271
Petty cash	**25,000**	20,000
	₱2,099,028	₱950,271

Cash in bank consists of savings deposit account, earning at annual interest rate of 0.25% and 0.30% in 2015 and 2014, respectively.

5. Trade and Other Receivables

This account consists of:

	2015	2014
Due from affiliates (Note 16)	**₱203,533**	₱6,795
Due from Parent Company (Note 16)	**69,530**	187,611
Other receivables	**63,650**	6,005
	₱336,713	₱200,411

Due from affiliates include amounts of shared expenses, paid initially by the Company for seminars and meetings on behalf of the entities within the CARD-MRI which are collectible from the affiliated CARD-MRI entities. Due from Parent Company represents the balance of unremitted collections from outlets received by the Parent Company on behalf of the Company. Other receivables pertain to advances made to suppliers.

6. Inventories

This account consists of:

	2015	2014
Inventories (Note 12)	**₱1,506,383**	₱2,470,396
Less allowance on inventory losses	**30,128**	709,353
	₱1,476,255	₱1,761,043

Inventories pertain to woven fabrics, woodcrafts, leather works, ethnic accessories and groceries intended for sale.

In 2014, the Company recognized loss on inventory writedown amounting to ₱0.71 million. In 2015, the Company reversed the allowance on inventory losses amounting to ₱0.60 million and written-off inventory amounting to ₱0.08 million since management assessed that these are no longer saleable.

The cost of inventories recognized under 'Cost of sales' in the statement of comprehensive income amounted to ₱8.15 million and ₱2.96 million in 2015 and 2014, respectively (Note 13).

7. Other Current Assets

This account consists of:

	2015	2014
Prepaid expenses	**₱231,472**	₱21,000
Creditable withholding tax	**230,889**	–
	₱462,361	₱21,000

Prepaid expenses consist of unexpired insurance premiums and advance rental for the lease of office and outlet spaces.

The Company will be able to apply the creditable withholding taxes against income tax payable.

8. Property and Equipment

The composition of and movements in this account follow:

	December 31, 2015		
	Furniture and Equipment	**Computer Equipment**	**Total**
Cost			
Balance at beginning of period	**₱95,142**	**₱–**	**₱95,142**
Additions	**115,100**	**11,760**	**126,860**
Balance at end of period	**210,242**	**11,760**	**222,002**
Accumulated depreciation			
Balance at beginning of period	**(13,214)**	**–**	**(13,214)**
Depreciation	**(47,045)**	**(3,593)**	**(50,638)**
Balance at end of period	**(60,259)**	**(3,593)**	**(63,852)**
Net book value at December 31	**₱149,983**	**₱8,167**	**₱158,150**

	December 31, 2014		
	Furniture and Equipment	Computer Equipment	Total
Cost			
Balance at beginning of period	₱–	₱–	₱–
Additions	95,142	–	95,142
Balance at end of period	95,142	–	95,142
Accumulated depreciation			
Balance at beginning of period	–	–	–
Depreciation	(13,214)	–	(13,214)
Balance at end of period	(13,214)	–	(13,214)
Net book value at December 31	₱81,928	₱–	₱81,928

9. Trade and Other Payables

This account consists of:

	2015	2014
Financial		
Due to Parent (Note 16)	**₱2,191,063**	₱2,914,946
Accounts payable	**379,926**	531,186
Accrued expenses	**103,142**	98,403
Due from affiliates (Note 16)	**35,987**	2,388
	2,710,118	3,546,923
Non-financial		
VAT payable	**87,384**	114,490
Withholding taxes payable	**3,774**	3,612
	91,158	118,102
	₱2,801,276	₱3,665,025

Accounts payable represents due to suppliers for inventory purchases.

Accrued expenses include accumulated vacation leave, bonuses, short-term employee benefits and other expenses.

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

10. Retirement Benefits

The Company, CARD, Inc., BDSF, CARD SME Bank, Inc., CARD Rural Bank, Inc., Rizal Bank Inc., CARD-MRI Development Institute, Inc. (CMDI), CARD Leasing and Finance Corporation (CLFC), CARD Mutual Benefit Association (MBA), Inc., CARD MRI Insurance Agency, (CAMIA), CARD MRI Information Technology, Inc., BotiCARD, Inc., Responsible Investments for Solidarity and Empowerment (RISE), and CARD Employees Multipurpose Cooperative (EMPC), maintain a funded and formal noncontributory defined benefit retirement plan – the CARD-MRI Multi-Employer Retirement Plan (MERP) – covering all of their regular employees.

MERP has a projected unit cost format and is financed solely by the Company and its related parties. MERP complies with the requirement of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to 120.00% 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 early retirement after completion of at least one year of service with the participating companies.

The components of retirement cost recognized in the statement of comprehensive income follow:

	2015
Current service cost	**₱124,385**
Actuarial loss recognized	**472,157**
	₱596,542

The amounts recognized in the statement of financial position for the net retirement liability follow:

	2015
Present value of defined benefit obligation	**₱818,442**
Fair value of plan assets	**(221,900)**
	₱596,542

Changes in the present value of defined benefit obligation follow:

	2015
At January 1	**₱–**
Current service cost	**124,385**
Transfer to the plan	**221,900**
Actuarial loss	**472,157**
At December 31	**₱818,442**

Changes in the fair value of plan assets are as follows:

	2015
At January 1	**₱–**
Transfer to the plan	**221,900**
At December 31	**₱221,900**

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 follow:

	2015
Cash and cash equivalents	**₱90,335**
Government securities	**101,431**
Mutual funds	**1,731**
Loans	**23,433**
Other assets	**4,970**
	₱221,900

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. Equity securities and other assets are unrated.

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 as of December 31, 2015 are shown below:

Discount rate	**5.04%**
Salary increase rate	**10.00%**

The Company plans to contribute ₱120,000 to the defined benefit retirement plan in 2016.

The average duration of the defined benefit obligation at the end of the reporting period is 32.2 years.

11. Equity

Capital Stock

The Company's capital stock consists of:

	2015		2014	
	Shares	**Amount**	Shares	Amount
Common stock - ₱100 par value, 50,000 authorized shares				
Issued and outstanding				
Issuance of shares at beginning of year	**10,000**	**₱1,000,000**	–	₱–
Issuances of shares of stocks from settlement of subscriptions receivables	**16,178**	**1,617,800**	10,000	1,000,000
Common stock at end of the year	**26,178**	**2,617,800**	10,000	1,000,000
Subscribed	**23,822**	**2,382,200**	2,500	250,000
Subscription receivable	**–**	**(2,382,200)**	–	(250,000)
	50,000	**₱2,617,800**	12,500	₱1,000,000

On May 8, 2014, the SEC approved the registration of fifty thousand (50,000) common shares at ₱100 par value per share of the Company, of which 12,500 shares were subscribed at ₱100 per share. The subscription for the 2,500 shares were paid on February 24, 2015.

In 2015, the remaining 37,500 shares were subscribed at ₱100 per share, with 16,178 shares issued for fully paid subscriptions.

12. Cost of Sales

The rollforward analysis of this account follows:

	2015	2014
Inventories at beginning of period	**₱2,470,396**	₱–
Purchases during the period	**7,189,229**	5,432,585
Inventories available for sale	**9,659,625**	5,432,585
Inventories at end of period (Note 6)	**1,506,383**	2,470,396
	₱8,153,242	₱2,962,189

13. Lease Contract

The Company leases offices and outlets. The lease contracts with terms of 1.0 to 3.0 years and are renewable upon mutual agreement between the Company and the lessors. Rent expense amounted to ₱0.14 million and ₱0.28 million in 2015 and 2014, respectively.

Future minimum lease payments payable under these operating leases follow:

	2015	2014
Within one year	**₱341,580**	₱283,537
Beyond one year but not more than five years	**245,472**	–
	₱587,052	₱283,537

14. Compensation and Employee Benefits

This account consists of:

	2015	2014
Retirement benefits (Note 10)	**₱124,385**	₱–
Salaries and wages	**467,133**	72,305
Short-term employee benefits	**421,306**	115,811
	₱1,012,824	₱188,116

15. Income Taxes

Current tax regulations provide that RCIT rate shall be 30.0%. Interest expense allowed as a deductible expense is reduced by 33.0% 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 but not to exceed 1.0% of net revenue for companies engaged in the sale of services. EAR paid or incurred in 2015 and 2014 both amounted to nil.

An MCIT of 2.0% 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 not yet eligible for MCIT being in its second year of operation.

The Company was registered with the BIR on August 4, 2014.

In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

The provision for income tax consists of final tax paid for interest income earned from cash in bank amounting to ₱366 and ₱80 in 2015 and 2014, respectively.

Reconciliation between the statutory income tax and the effective income tax follows:

	2015	2014
Statutory income tax	**₱50,288**	(₱495,088)
Tax effects of:		
Valuation allowance for deferred tax assets	**(49,739)**	495,208
Income subject to final tax	**(183)**	(40)
Provision for income tax	**₱366**	₱80

The Company's deferred tax assets consist of:

	2015	2014
Tax effects of:		
NOLCO	**₱257,467**	₱282,402
Retirement liability	**178,962**	–
Allowance for inventory losses	**9,038**	212,806
	445,467	495,208
Less valuation allowance	**(445,467)**	(495,208)
	₱–	₱–

In 2015, the Company applied NOLCO to its taxable income amounting to ₱0.08 million. The balance of the NOLCO incurred in 2014 amounting to ₱0.86 million will expire in 2017.

16. Related Party Transactions

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
- affiliates within the CARD-MRI Group.

The Company has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business.

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 members of the board of directors and senior management to constitute key management personnel.

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 its affiliates within the CARD-MRI, also qualify as related party transactions.

Accounts payable and accounts receivable
Accounts payable and accounts receivable held by the Company for Parent Company and affiliates as at December 31, 2015 and 2014 follow:

		December 31, 2015	
Category	**Amount / Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Accounts receivables		**₱69,530**	This pertains to unremitted collections made on behalf of the Company for sale of souvenirs, and agricultural products. Also includes share of expenses for meetings held by CARD-MRI group (unimpaired, due and demandable).
Billings	**₱2,329,868**		
Collections	**(2,447,949)**		
Other income	**4,267**		This pertains to facilitation fee for the sale of rice.
Accounts payable		**2,191,603**	This pertains to the unpaid inventories and shared expenses shouldered by the Parent Company.
Billings	**723,884**		
Payments	**(1,447,227)**		
Affiliates*			
Accounts receivables		**197,234**	This pertains to unremitted collections made on behalf of the Company for sale of souvenirs, and agricultural products. Also includes share of expenses at on meetings held by CARD-MRI group (unimpaired, due and demandable).
Billings	**27,442,851**		
Collections	**(27,252,412)**		
Other income	**1,499,148**		This pertains to facilitation fee for the sale of rice.
Accounts payable		**35,987**	This pertains to the unpaid services rendered by an affiliate.
Billings	**641,113**		
Payments	**(607,514)**		

**Includes CARD, Inc.., CARD Bank., CARD SME Bank., RBI., CMIT., RISE, CMDI., BotiCARD, CLFC, CARD EMPC, CARD MBA and CAMIA*

		December 31, 2014	
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Parent Company			
Accounts receivables		₱187,611	This pertains to unremitted collections made on behalf of the Company for sale of souvenirs, and agricultural products. Also includes share of expenses for meetings held by CARD-MRI group (unimpaired, due and demandable).
Billings	₱1,476,665		
Collections	(1,289,054)		
Accounts payable		2,914,946	This pertains to the unpaid inventories and shared expenses shouldered by the Parent Company.
Billings	4,061,028		
Payments	(1,146,082)		

(Forward)

		December 31, 2014	
Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
Affiliates*			
Accounts receivables		6,795	This pertains to unremitted collections made on behalf of the Company for sale of souvenirs, and agricultural products. Also includes share of expenses at on meetings held by CARD-MRI group (unimpaired, due and demandable).
Billings	330,830		
Collections	(324,035)		
Accounts payable		2,388	This pertains to the unpaid services rendered by an affiliate.
Billings	2,388		

**Includes CARD, Inc.., CARD Bank., CARD SME Bank., RBI., CMIT., RISE, CMDI., BotiCARD, CLFC, CARD EMPC, CARD MBA and CAMIA*

17. Approval of the Release of the Financial Statements

The accompanying financial statements of the Company were reviewed and approved for release by the Company's Board of Directors on March 11, 2016.

18. Supplementary Information under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to the financial statements shall include information on taxes, duties and licenses paid or accrued during the year.

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

Business permits and licenses	₱44,594
Community tax certificate	500
	₱45,094

The following withholding taxes are categorized into:

	Total Remittances	Balance as at December 31, 2015
Expanded withholding taxes	₱35,040	₱2,052
Withholding tax on compensation and benefits	24,916	1,722
	₱59,956	₱3,774

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 importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. VAT rate is 12.0%, effective February 1, 2006.

Details of the Company's input tax claimed per VAT returns filed with BIR are as follows:

Balance at beginning of period	₱–
Current year's purchases of:	
Goods other than capital goods	170,726
Total input VAT available	170,726
Output VAT	(170,726)
Balance at end of period	₱–

In 2015, the Company declared receipts on sales and corresponding output tax amounting to ₱9.53 million and ₱1.14 million, respectively. In 2015, the Company also declared VATable miscellaneous receipts and corresponding output tax amounting to ₱1.23 million and ₱0.15 million. The Company also declared VAT-exempt miscellaneous receipts from sale of muscovado sugar amounting to ₱0.26 million.

Tax Contingencies

The Company did not receive any final tax assessments in 2015 nor did it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the administration of BIR.