# Mga Likha ni Inay, Inc.

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

# C O V E R   S H E E T
for
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| C | S | 2 | 0 | 1 | 4 | 0 | 8 | 2 | 8 | 6 |
|---|---|---|---|---|---|---|---|---|---|---|

**C O M P A N Y   N A M E**

MGA LIKHA NI INAY, INC.

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

20 M.L. QUEZON STREET, CITY SUBDIVISION, SAN PABLO CITY, LAGUNA

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | N/A |

**C O M P A N Y   I N F O R M A T I O N**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| mgalikhaniinayinc@gmail.com | (049) 561-3268 | Not applicable |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 10 | February 20 | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Mr. Julius Adrian R. Alip | julius.alip@cardbankph.com | (049)561-3268 | 0998-576-7938 |

**CONTACT PERSON's ADDRESS**

20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna

***NOTE 1 :*** *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2 :*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

*SGVFS031066*

## MGA LIKHA NI INAY, INC.
## STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash (Notes 4 and 16) | **₱2,182,727** | ₱8,097,622 |
| Receivables (Notes 5 and 16) | **2,880,937** | 2,472,736 |
| Inventories (Notes 6 and 12) | **5,006,660** | 6,068,347 |
| Other current assets (Note 7) | **189,740** | 414,217 |
| | **10,260,064** | 17,052,922 |
| **Noncurrent Assets** | | |
| Property and equipment (Note 8) | **874,292** | 410,552 |
| Other noncurrent assets | **159,817** | 38,088 |
| Retirement asset (Note 10) | **335,191** | – |
| | **1,369,300** | 448,640 |
| **TOTAL ASSETS** | **₱11,629,364** | ₱17,501,562 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 9) | **₱7,737,031** | ₱13,896,983 |
| Income tax payable | **–** | 203,390 |
| | **7,737,031** | 14,100,373 |
| **Noncurrent Liability** | | |
| Retirement liability (Note 10) | **–** | 148,728 |
| | **7,737,031** | 14,249,101 |
| **Equity** | | |
| Capital stock (Note 11) | **2,617,800** | 2,617,800 |
| Retained earnings | **1,274,533** | 634,661 |
| | **3,892,333** | 3,252,461 |
| **TOTAL LIABILITIES AND EQUITY** | **₱11,629,364** | ₱17,501,562 |

*See accompanying Notes to Financial Statements.*

## MGA LIKHA NI INAY, INC.
## STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **REVENUE** | | |
| Gross sales | **₱44,061,406** | ₱37,988,804 |
| Cost of sales (Notes 6 and 12) | **(29,704,655)** | (25,857,302) |
| Gross income | **14,356,751** | 12,131,502 |
| Actuarial gain (Note 10) | **548,608** | 504,368 |
| Interest income (Note 4) | **4,531** | 3,909 |
| Other income (Note 16) | **761,264** | 1,991,027 |
| | **15,671,154** | 14,630,806 |
| **EXPENSES** | | |
| Outsourced services | **3,501,558** | 1,801,981 |
| Supplies and materials | **2,144,281** | 1,466,584 |
| Compensation and employee benefits (Note 14) | **1,865,356** | 1,214,591 |
| Transportation and travel | **1,234,348** | 1,027,086 |
| Commission and service charges | **761,024** | 318,396 |
| Provisions for inventory losses (Note 6) | **642,420** | 248,829 |
| Rent (Note 13) | **570,237** | 882,534 |
| Interest (Note16) | **543,768** | 260,560 |
| Program monitoring and evaluation | **350,072** | 431,481 |
| Utilities | **347,331** | 159,946 |
| Repairs and maintenance | **340,613** | 563,857 |
| Management and professional fees | **311,447** | 302,148 |
| Information technology | **273,850** | 598,933 |
| Depreciation (Note 8) | **270,318** | 189,848 |
| Seminars and meetings | **163,217** | 93,212 |
| Insurance | **120,065** | 102,124 |
| Staff training and development | **114,304** | 487,191 |
| Communication and postage | **67,635** | 150,477 |
| Supervision and examination | **48,523** | 112,217 |
| Taxes and licenses | **32,397** | 48,515 |
| Miscellaneous | **999,111** | 1,203,864 |
| | **14,701,875** | 11,664,374 |
| **INCOME BEFORE INCOME TAX** | **969,279** | 2,966,432 |
| **PROVISION FOR INCOME TAX** (Note 15) | **329,407** | 848,660 |
| **TOTAL COMPREHENSIVE INCOME*** | **₱639,872** | ₱2,117,772 |

*There are no other comprehensive income in 2017 and 2016.

*See accompanying Notes to Financial Statements.*

**MGA LIKHA NI INAY, INC.**

**STATEMENTS OF CHANGES IN EQUITY**

| | Capital Stock (Note 11) | Retained Earnings (Deficit) | Total |
|---|---|---|---|
| At January 1, 2017 | **₱2,617,800** | **₱634,661** | **₱3,252,461** |
| Net income for the year | **–** | **639,872** | **639,872** |
| At December 31, 2017 | **₱2,617,800** | **₱1,274,533** | **₱3,892,333** |
| | | | |
| At January 1, 2016 | ₱2,617,800 | (₱1,483,111) | ₱1,134,689 |
| Net income for the year | – | 2,117,772 | 2,117,772 |
| At December 31, 2016 | ₱2,617,800 | ₱634,661 | ₱3,252,461 |

*See accompanying Notes to Financial Statements.*

## MGA LIKHA NI INAY, INC.
## STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | **2017** | 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Income before income tax | **₱969,279** | ₱2,966,432 |
| Adjustments for: | | |
| Provisions for inventory losses (Note 6) | **642,420** | 248,829 |
| Actuarial gain (Note 10) | **(548,608)** | (504,368) |
| Interest expense (Note 16) | **543,768** | 260,560 |
| Depreciation (Note 8) | **270,318** | 189,848 |
| Retirement expense, net of contributions paid (Notes 10 and 14) | **64,689** | 56,554 |
| Interest income (Note 4 ) | **(4,531)** | (3,909) |
| Operating income before changes in operating assets and liabilities | **1,937,335** | 3,213,946 |
| Increase (decrease) in: | | |
| Inventories | **419,267** | (4,840,921) |
| Receivables | **(408,201)** | (2,136,023) |
| Other assets | **(225,753)** | 10,056 |
| Increase (decrease) in trade and other payables | **(6,159,952)** | 11,095,707 |
| Net cash generated from (used in) operations | **(4,437,304)** | 7,342,765 |
| Interest paid | **(543,768)** | (260,560) |
| Interest received | **4,531** | 3,909 |
| Income tax paid (Note 7) | **(204,296)** | (645,270) |
| Net cash generated from (used in) operating activities | **(5,180,837)** | 6,440,844 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Acquisition of property and equipment (Note 8) | **(734,058)** | (442,250) |
| **NET INCREASE (DECREASE) IN CASH** | **(5,914,895)** | 5,998,594 |
| **CASH AT BEGINNING OF YEAR** | **8,097,622** | 2,099,028 |
| **CASH AT END OF YEAR** (Note 4) | **₱2,182,727** | ₱8,097,622 |

*See accompanying 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).

On February 15, 2015, the Board of Trustees (BOT) of CARD-Business Development Service Foundation, Inc. (the Parent Company) approved the spin-off of the Company resulting to a total of 40% ownership of the Parent Company. In 2016, some stockholders transferred their 4% ownership to the Parent Company resulting to 44% ownership.

## 2. Basis of Preparation, Statement of Compliance and 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 and presentation currency. All values are rounded to the nearest peso.

### 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.

### 2015 Amendments to PFRS for SME
In August 2016, the Securities and Exchange Commission resolved to adopt the 2015 Amendments to the PFRS for SMEs as part of its rules and regulations on financial reporting.

The amendments clarify existing requirements and add supporting guidance to the existing standard rather than change the underlying requirements. Among the most significant amendments to the standard are:

- Permitting SMEs to use the revaluation model to measure items of property, plant and equipment;
- Aligning the recognition and measurement requirements for deferred income tax with full PFRSs; and
- Allowing SMEs to use the equity method to account for investments in subsidiaries, associates and jointly controlled entities in the separate financial statements.

The amendments are effective for annual periods beginning or on after January 1, 2017. Earlier application is permitted.

The adoption of this is not expected to have a significant impact on the Company's financial statements. The Company intends to adopt the amendments when these become effective.

Cash
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 Subsequent Measurement
*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.

The classification depends on the purpose for which the investments were acquired and whether these are quoted in an active market. Management determines the classification at initial recognition and re-evaluates such designation, where allowed and appropriate, at every reporting date.

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, 2017 and 2016, 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. 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.

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 (NRV). 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.

NRV 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 write down of cost to NRV is recognized under 'Loss on inventory' account in the statement of comprehensive income.

Write down of Inventories
At each reporting date, inventories are assessed for write down, i.e., the amount is not fully recoverable because of damage, obsolescence or declining selling prices. The Company measures loss on write-off by comparing the carrying amount of each item of inventory with its selling price less cost to sell. If the cost of an item of the inventory is higher than NRV, its carrying amount is reduced to selling price less cost to sell and 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.

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 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.

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 arises from services rendered to affiliates other than selling of goods. This income is also subject to 12% VAT and is recognized when the related services are rendered.

Expense Recognition
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.

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.

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 comprehensive 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:

- 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.

<u>Income Taxes</u>
*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 statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). 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 temporary differences, unused net operating loss carry-over (NOLCO) and carryforward of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) that are expected to reduce taxable profit in the future. 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 subject to MCIT as it is on the 4$^{th}$ 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.

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 the Company expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted as of the end of the reporting date.

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 Judgment 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.

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, 2017 and 2016, management assessed that there is no significant judgement exercised in respect to the preparation of the financial statements.

Estimates
*(a) Write down of inventories*
The Company assesses impairment on inventories whenever events or changes in circumstances indicate that the carrying amount of an item of the inventory 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, 2017 and 2016, the carrying values of inventories are disclosed in Note 6.

(b) *Recognition of deferred tax assets*
The Company reviews the net carrying amount of deferred tax assets 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, 2017 and 2016, the Company's unrecognized deferred tax assets are disclosed in Note 15.

(c) *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:

| | **2017** | 2016 |
|---|---|---|
| Petty cash | **₱25,000** | ₱25,000 |
| Cash in banks (Note 16) | **2,157,727** | 8,072,622 |
| | **₱2,182,727** | ₱8,097,622 |

Cash in banks consists of savings deposit accounts, with annual interest rates ranging from 0.25% to 1.00% and 0.25% in 2017 and 2016, respectively. The Company earned interest income amounting to ₱4,531 and ₱3,909 in 2017 and 2016, respectively.

## 5. Receivables

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | **₱1,033,045** | ₱2,177,535 |
| Due from affiliates (Note 16) | **817,787** | 267,250 |
| Due from Parent Company (Note 16) | **880,405** | 27,951 |
| Others | **149,700** | – |
| | **₱2,880,937** | ₱2,472,736 |

Trade receivables arise from sales transactions which are non-interest bearing and are generally collectible on a 30-day period.

Due from affiliates and Parent Company include 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.

Others pertain to refundable deposits made by the Company for lease of its office space.

## 6. Inventories

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| Inventories (Note 12) | **₱5,110,414** | ₱6,163,803 |
| Less allowance on inventory losses | **103,754** | 95,456 |
| | **₱5,006,660** | ₱6,068,347 |

Inventories pertain to turmeric, salabat, woven fabrics, woodcrafts, leather works, ethnic accessories and groceries intended for sale. As of December 31, 2017 and 2016, the account also includes undelivered goods to CARD Inc. and CARD Bank Inc. pertaining to umbrellas as giveaways for opening of branches and savings caravan and to stockholders' mugs, respectively.

The Company has written off inventory amounting to ₱0.63 million and ₱0.18 million as the management determined that these are no longer saleable in 2017 and 2016, respectively.

The movements in the allowance for inventory losses follow:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | **₱95,456** | ₱30,128 |
| Provisions for inventory losses | **642,420** | 248,829 |
| Write-offs | **(634,122)** | (183,501) |
| At December 31 | **₱103,754** | ₱95,456 |

The cost of inventories recognized under 'Cost of sales' in the statements of comprehensive income amounted to ₱29.70 million and ₱25.86 million in 2017 and 2016, respectively (Note 12).

## 7. Other Current Assets

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Prepaid expenses | **₱180,610** | ₱414,217 |
| Creditable withholding tax | **9,130** | – |
| | **₱189,740** | ₱414,217 |

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

In 2017 and 2016, the Company applied creditable withholding taxes against income tax payable amounting to ₱0.33 million and ₱0.64 million, respectively.

## 8. Property and Equipment

The composition of and movements in this account follow:

| | **2017** | | | |
|---|---|---|---|---|
| | **Transportation Vehicle** | **Furniture and Equipment** | **Computer Equipment** | **Total** |
| **Cost** | | | | |
| Balance at beginning of the year | **₱–** | **₱652,492** | **₱11,760** | **₱664,252** |
| Additions | **686,460** | **47,598** | **–** | **734,058** |
| Balance at end of the year | **686,460** | **700,090** | **11,760** | **1,398,310** |
| **Accumulated depreciation** | | | | |
| Balance at beginning of the year | **–** | **(246,187)** | **(7,513)** | **(253,700)** |
| Depreciation | **(57,205)** | **(209,193)** | **(3,920)** | **(270,318)** |
| Balance at end of the year | **(57,205)** | **(455,380)** | **(11,433)** | **(524,018)** |
| **Net book value at December 31** | **₱629,255** | **₱244,710** | **₱327** | **₱874,292** |

| | 2016 | | | |
|---|---|---|---|---|
| | Transportation Vehicle | Furniture and Equipment | Computer Equipment | Total |
| Cost | | | | |
| Balance at beginning of the year | ₱– | ₱210,242 | ₱11,760 | ₱222,002 |
| Additions | – | 442,250 | – | 442,250 |
| Balance at end of the year | – | 652,492 | 11,760 | 664,252 |
| Accumulated depreciation | | | | |
| Balance at beginning of the year | – | (60,259) | (3,593) | (63,852) |
| Depreciation | – | (185,928) | (3,920) | (189,848) |
| Balance at end of the year | – | (246,187) | (7,513) | (253,700) |
| Net book value at December 31 | ₱– | ₱406,305 | ₱4,247 | ₱410,552 |

## 9. Trade and Other Payables

This account consists of:

| | 2017 | 2016 |
|---|---|---|
| **Financial** | | |
| Due to Parent Company (Note 16) | **₱2,706,812** | ₱6,287,173 |
| Due from affiliates (Note 16) | **2,253,954** | 5,367,856 |
| Accrued expenses | **776,180** | 914,196 |
| Accounts payable | **1,134,754** | 567,879 |
| | **6,871,700** | 13,137,104 |
| **Nonfinancial** | | |
| VAT payable | **794,429** | 632,036 |
| Withholding taxes payable | **70,902** | 127,843 |
| | **865,331** | 759,879 |
| | **₱7,737,031** | ₱13,896,983 |

Accrued expenses include accumulated vacation leave, external audit fee, short-term employee benefits and other expenses.

Accounts payable represents due to suppliers for inventory purchases.

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 Bank Inc., CARD MRI Development Institute, Inc. (CMDI), CARD Mutual Benefit Association (MBA), Inc., CARD SME Bank, Inc., CARD MRI Insurance Agency (CAMIA), Inc., CARD Business Development Service Foundation, Inc. (BDSFI), Inc., CARD MRI Information Technology, Inc. (CMIT), CARD Employees Multi-Purpose Cooperative (EMPC), Responsible Investments for Solidarity and Empowerment Financing Co. (RISE), BotiCARD Inc., CARD Leasing and Finance Corporation (CLFC), RBI and CARD, 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 is valued using the projected unit cost method and is financed solely by the Company and its related parties.

MERP comply with the requirements of Republic Act No. 7641 (Retirement Law). 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 latest actuarial valuation report covers reporting period as at December 31, 2017.

Changes in net defined benefit asset (liability) in 2017 and 2016 follow:

| | | Retirement Cost | | | | Remeasurement Losses (Gains) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2017 | Current service cost | Net interest | Subtotal | Transfer from (to) plan assets | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in financial assumptions | Effect of asset ceiling | Changes in remeasurement losses (gains) | Contribution by employer | December 31, 2017 |
| **Fair value of net plan assets** | **₱1,663,598** | **₱–** | **93,825** | **93,825** | **(₱211,246)** | **(₱29,408)** | **₱–** | **₱–** | **₱–** | **(₱240,654)** | **₱86,266** | **₱1,603,035** |
| **Present value of defined benefit obligation** | **(1,812,326)** | **(138,578)** | **(106,202)** | **(244,780)** | **211,246** | **–** | **250,759** | **383,322** | **–** | **845,327** | **–** | **(1,211,779)** |
| **Effect of asset ceiling** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(56,065)** | **(56,065)** | **–** | **(56,605)** |
| **Net defined benefit asset (liability)** | **(₱148,728)** | **(₱138,578)** | **(₱12,377)** | **(₱150,955)** | **₱–** | **(₱29,408)** | **₱250,759** | **₱383,322** | **(₱56,065)** | **₱548,608** | **₱86,266** | **₱335,191** |

| | | Retirement Cost | | | Remeasurement Losses (Gains) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2016 | Current service cost | Net interest | Subtotal | Transfer from (to) plan assets | Return on plan assets (excluding amount included in net interest) | Actuarial changes arising from changes in demographic assumptions | Actuarial changes arising from changes in financial assumptions | Effect of asset ceiling | Changes in remeasurement losses (gains) | Contribution by employer | December 31, 2017 |
| **Fair value of net plan assets** | ₱221,900 | ₱– | ₱48,466 | ₱48,466 | ₱1,411,863 | (₱86,240) | ₱– | ₱– | **₱–** | ₱1,325,623 | ₱67,609 | ₱1,663,598 |
| **Present value of defined benefit obligation** | (818,442) | (131,380) | (41,249) | (172,629) | (1,411,863) | – | (1,058,516) | 1,649,124 | – | 821,255 | – | (1,812,326) |
| **Net defined benefit asset (liability)** | ₱(596,542) | (₱131,380) | ₱7,217 | (₱124,163) | ₱– | (₱86,240) | (₱1,058,516) | ₱1,649,124 | **₱–** | ₱504,368 | ₱67,609 | (₱148,728) |

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

| | **2017** | 2016 |
|---|---|---|
| Government securities | **₱843,677** | ₱815,828 |
| Cash and cash equivalents | **660,611** | 691,059 |
| Loans | **70,534** | 125,602 |
| Mutual funds | **7,534** | 8,651 |
| Other assets | **20,679** | 22,458 |
| | **₱1,603,035** | ₱1,663,598 |

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

The plan assets have diverse investments and do not have any concentration risk other than those in government securities which are of low risk.

The overall investment policy and strategy of the Company's defined benefit plans 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 retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used in determining pension for the defined benefit plans are shown below:

| | **2017** | 2016 |
|---|---|---|
| Discount rate | **5.77%** | 5.86% |
| Future salary increases | **5.00%** | 7.00% |

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Increase of 1.0%** | **Decrease of 1.0%** | Increase of 1.0% | Decrease of 1.0% |
| Discount rate | **(₱163,903)** | **₱199,226** | (₱280,787) | ₱345,860 |
| Future salary increase | **185,780** | **(156,721)** | 318,359 | (266,001) |

The Company expects to contribute ₱86,266 to its defined benefit pension plan in 2018.

Shown below is the 25-year maturity analysis of the undiscounted benefit payments of the Company:

| | **2017** | 2016 |
|---|---|---|
| Less than 1 year | **₱39,213** | ₱38,129 |
| More than 1 year to 5 years | **183,756** | 204,762 |
| More than 5 years to 10 years | **305,980** | 393,820 |
| More than 10 years to 15 years | **454,765** | 651,101 |
| More than 15 years to 20 years | **4,178,689** | 1,194,486 |
| More than 20 years to 25 years | **167,921** | 8,199,009 |
| More than 25 years | **2,482,937** | 4,792,929 |
| | **₱7,813,261** | ₱15,474,236 |

The average duration of the defined benefit obligation at the end of the reporting period is 15.0 years.

## 11. Equity

Capital Stock

The Company's capital stock consists of:

| | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount |
| **Common stock - ₱100 par value, 50,000 authorized shares** | | | | |
| Issued and outstanding | | | | |
| Issuance of shares at beginning of year | **26,178** | **₱2,617,800** | 10,000 | ₱1,000,000 |
| Issuances of shares of stocks from settlement of subscriptions receivables | **–** | **–** | 16,178 | 1,617,800 |
| Common stock at end of the year | **26,178** | **2,617,800** | 26,178 | 2,617,800 |
| Subscribed | **23,822** | **2,382,200** | 23,822 | 2,382,200 |
| Subscription receivable | **–** | **(2,382,200)** | – | (2,382,200) |
| | **50,000** | **₱2,617,800** | 50,000 | ₱2,617,800 |

## 12. Cost of Sales

The rollforward analysis of this account follows:

| | **2017** | 2016 |
|---|---|---|
| Inventories at beginning of period | **₱6,163,803** | ₱1,506,383 |
| Purchases during the period | **28,651,266** | 30,514,722 |
| Inventories available for sale | **34,815,069** | 32,021,105 |
| Inventories at end of period (Note 6) | **5,110,414** | 6,163,803 |
| | **₱29,704,655** | ₱25,857,302 |

13. **Lease Contract**

The Company leases offices and outlets. The lease contracts with terms of one (1) to three (3) years and are renewable upon mutual agreement between the Company and the lessors. Rent expense recorded under ‘Rent’ in the statements of comprehensive income’ amounted to ₱0.57 million and ₱0.88 million in 2017 and 2016, respectively.

Future minimum lease payments payable under these operating leases follow:

| | **2017** | 2016 |
|---|---|---|
| Within one year | **₱787,414** | ₱412,944 |
| Beyond one year but not more than five years | **232,496** | 248,664 |
| | **₱1,019,910** | ₱661,608 |

14. **Compensation and Employee Benefits**

This account consists of:

| | **2017** | 2016 |
|---|---|---|
| Salaries and wages | **₱860,756** | ₱555,608 |
| Short-term employee benefits | **853,645** | 534,820 |
| Retirement benefits (Note 10) | **150,955** | 124,163 |
| | **₱1,865,356** | ₱1,214,591 |

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 2017 and 2016 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 eligible for MCIT being in its fourth 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 in 2017 and 2016 consists of:

| | **2017** | 2016 |
|---|---|---|
| Current: | | |
| RCIT | **₱328,501** | ₱847,878 |
| Final tax | **906** | 782 |
| | **₱329,407** | ₱848,660 |

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

| | **2017** | 2016 |
|---|---|---|
| Statutory income tax | **₱290,784** | ₱889,930 |
| Tax effects of: | | |
| Nondeductible expenses | **245,787** | 331,334 |
| Nontaxable income | **(164,582)** | **–** |
| Movements in unrecognized deferred tax assets | **(42,129)** | (372,213) |
| Income subjected to final tax | **(453)** | (391) |
| Provision for income tax | **₱329,407** | ₱848,660 |

The Company did not recognize deferred tax assets on the following differences:

| | **2017** | 2016 |
|---|---|---|
| Allowance for inventory losses | **₱103,755** | ₱95,456 |
| Retirement liability | **–** | 148,728 |
| | **₱103,755** | ₱244,184 |

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.

| | **2017** | 2016 |
|---|---|---|
| Short-term benefits | **₱1,115,944** | ₱534,820 |
| Post-employment benefits | **60,274** | 124,163 |
| | **₱1,176,218** | ₱658,983 |

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.

As of December 31, 2017 and 2016, transactions with related parties are as follows:

| | **December 31, 2017** | | |
|---|---|---|---|
| **Category** | **Amount/Volume** | **Outstanding Balance** | **Nature, Terms and Conditions** |
| **Parent Company** | | | |
| Accounts receivables | | **₱880,405** | 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 | **₱1,508,267** | | |
| Collections | **(655,813)** | | |
| Accounts payable | | **2,706,812** | This pertains to the unpaid inventories and shared expenses shouldered by the Parent Company. |
| Billings | **₱2,890,089** | | |
| Payments | **(6,470,450)** | | |
| **Affiliates*** | | | |
| Cash in bank | | **994,520** | This pertains to checking and savings account with annual interest of ranging from 0.25% to 1% |
| Deposits | **24,965,188** | | |
| Withdrawals | **(29,512,987)** | | |
| Accounts receivables | | **817,787** | 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 | **28,858,163** | | |
| Collections | **(28,307,626)** | | |
| Other income | **751,542** | | This pertains to service fee for the sale of furniture and stationeries. |
| Accounts payable | | **2,253,954** | This pertains to unpaid inventories purchased by other CARD MRI entities and loans from CLFC |
| Billings | **12,203,030** | | |
| Payments | **15,316,932** | | |
| Interest expense | **543,768** | | This pertains to 9% interest on operating loans. |

| | December 31, 2016 | | |
|---|---|---|---|
| Category | Amount/Volume | Outstanding Balance | Nature, Terms and Conditions |
| **Parent Company** | | | |
| Accounts receivables | | ₱27,951 | 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 | ₱726,492 | | |
| Collections | (768,071) | | |
| Other income | 94,259 | | This pertains to service fee for the sale of rice. |
| Accounts payable | | 6,287,173 | This pertains to the unpaid inventories and shared expenses shouldered by the Parent Company. |
| Billings | 6,272,418 | | |
| Payments | (2,176,308) | | |
| **Affiliates*** | | | |
| Cash in bank | | 5,542,319 | This pertains to checking and savings account with annual interest of 0.25% |
| Deposit | 27,071,581 | | |
| Withdrawal | (21,529,262) | | |

| Category | December 31, 2016 Amount/Volume | Outstanding Balance | Nature, Terms and Conditions |
|---|---|---|---|
| Accounts receivables | | ₱267,250 | 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 | ₱15,405,450 | | |
| Collections | (15,335,434) | | |
| Other income | 1,320,125 | | This pertains to service fee for the sale of rice. |
| Accounts payable | | 5,367,856 | This pertains to the unpaid services rendered by an affiliate. |
| Billings | 11,747,920 | | |
| Payments | (6,416,051) | | |
| Interest expense | 260,560 | | This pertains to 2% interest on financing loans. |

**Includes CARD, Inc., CARD Bank., CARD SME Bank, CLFC, CMDI, CARD EMPC, CARD MBA, CAMIA, CPMI, Publishing and Hijos Tours*

## 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 26, 2018.

## 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 statements of comprehensive income follow:

| | |
|---|---|
| Business permits and licenses | ₱31,897 |
| Others | 500 |
| | ₱32,397 |

Other taxes consist of annual registration fee and other taxes paid.

The following withholding taxes are categorized into:

| | Total Remittances | Balance as at December 31, 2017 |
|---|---|---|
| Expanded withholding taxes | ₱236,420 | ₱27,698 |
| Withholding tax on compensation and benefits | 27,141 | 43,204 |
| | ₱263,561 | ₱70,902 |

<u>Value added tax (VAT)</u>
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 net sales/receipts output VAT and input VAT claimed per VAT returns filed with BIR are as follows:

| | Sales/Receipts (Purchases) | Output tax (Input tax) |
|---|---|---|
| Beginning balance | | ₱632,036 |
| Vatable sales/receipts: | | |
| Sale of goods | ₱39,009,222 | 4,681,107 |
| Service fees | 761,264 | 91,352 |
| Zero rated sales | 5,052,184 | − |
| Domestic purchases of goods/services | (11,448,754) | (1,373,851) |
| Total remittances | | (3,236,215) |
| Balance at end of year | | ₱794,429 |

<u>Tax Contingencies</u>
As at December 31, 2017, the Company did not receive any final tax assessments nor did it have tax cases under preliminary investigation, litigation and/or prosecution in any courts or bodies outside the administration of BIR.