

**MGA LIKHA NI INAY, INC.**

**Financial Statements**

**December 31, 2022 and 2021**

**and**

**Independent Auditor's Report**

**ENDRIGA, MANANGU & ASSOCIATES**  
**Certified Public Accountants**

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

			As of December 31	
	Notes		2022	2021
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash	3, 5	P	6,296,582	P 6,232,526
Trade and other receivables	3, 6		2,189,576	2,673,941
Inventories	3, 7		4,902,132	990,846
Other current assets	3, 8		830,658	797,647
Total Current Assets			14,218,948	10,694,960
<b>NONCURRENT ASSETS</b>				
Property and equipment - net	3, 9		424,040	282,490
Retirement asset	3, 12		473,923	471,887
Other noncurrent assets	3, 8		5,261	71,006
Total Noncurrent Assets			903,224	825,383
<b>TOTAL ASSETS</b>		P	15,122,172	P 11,520,343
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade and other payables	3, 10	P	4,819,722	P 4,928,822
Loan payables - current portion	3, 11		-	1,188,474
Total Current Liabilities			4,819,722	6,117,296
<b>NONCURRENT LIABILITIES</b>				
Deposit for future stocks subscription	3, 13		-	937,500
Total Noncurrent Liabilities			-	937,500
Total Liabilities			4,819,722	7,054,796
<b>EQUITY</b>				
Capital stock	3, 14		7,836,450	5,000,000
Retained earnings (deficit)	3		2,466,000	(534,453)
Total Equity	3		10,302,450	4,465,547
<b>TOTAL LIABILITIES AND EQUITY</b>		P	15,122,172	P 11,520,343

See accompanying Notes to Financial Statements.



**MGA LIKHA NI INAY, INC.**  
**STATEMENTS OF INCOME**

	<i>Notes</i>	For the Years Ended December 31	
		<b>2022</b>	2021
<b>REVENUES</b>	3, 15 P	<b>32,296,092</b> P	26,308,155
<b>COST OF GOODS SOLD</b>	3, 16	<b>(21,602,027)</b>	(17,405,771)
<b>COST OF SERVICES</b>	3, 16	<b>(532,999)</b>	(769,270)
<b>GROSS INCOME</b>		<b>10,161,066</b>	8,133,114
<b>ADMINISTRATIVE EXPENSES</b>	3, 17	<b>(6,569,646)</b>	(7,115,134)
<b>NET INCOME FROM OPERATIONS</b>		<b>3,591,420</b>	1,017,980
<b>OTHER CHARGES - NET</b>	3, 18	<b>(62,691)</b>	(45,845)
<b>NET INCOME BEFORE INCOME TAX</b>		<b>3,528,729</b>	972,135
<b>PROVISION FOR INCOME TAX</b>	3, 19	<b>815,829</b>	56,183
<b>TOTAL INCOME</b>		<b>P 2,712,900</b> P	915,952

*See accompanying Notes to Financial Statements.*



**MGA LIKHA NI INAY, INC.****STATEMENTS OF CHANGES IN EQUITY**

As of December 31

	<b>Capital Stock</b> <i>(Note 14)</i>	<b>Retained Earnings</b>	<b>Total</b>
<b>At January 1, 2022</b>	<b>P 5,000,000</b>	<b>P (534,453)</b>	<b>P 4,465,547</b>
Issuance of stocks	1,899,450	-	1,899,450
Application of deposit for future stock subscription	937,000	-	937,000
Prior period adjustment	-	287,553	287,553
Net income after income tax	-	2,712,900	2,712,900
<b>At December 31, 2022</b>	<b>P 7,836,450</b>	<b>P 2,466,000</b>	<b>P 10,302,450</b>
<b>At January 1, 2021</b>	<b>P 2,800,750</b>	<b>P (1,450,405)</b>	<b>P 1,350,345</b>
Issuance of stocks	2,199,250	-	2,199,250
Net income after income tax	-	915,952	915,952
<b>At December 31, 2021</b>	<b>P 5,000,000</b>	<b>P (534,453)</b>	<b>P 4,465,547</b>

*See accompanying Notes to Financial Statements.*

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

		For the Years Ended December 31	
	Notes	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P 3,528,729	P 972,135
Adjustment for:			
Interest expense	17	82,160	380,077
Depreciation	9, 17	168,047	151,655
Retirement expense, net of contributions paid	12, 17	(75,237)	59,074
Loss on inventory	17	43,541	143,283
Write-off of receivables	6	(914,963)	-
Provision on uncollectible accounts	17	700,793	393,227
Actuarial loss on retirement plan	17	73,201	108,175
Interest income	17	(1,787)	(2,248)
Operating income before working capital changes		<b>3,604,484</b>	2,205,378
Changes in operating assets and liabilities			
Decrease (increase) in:			
Trade and other receivables	6	698,536	(1,005,377)
Inventories	7	(3,954,827)	2,813,036
Other current assets	8	(288,463)	(34,285)
Decrease in:			
Trade and other payables	10	(109,100)	(1,542,201)
Net cash flow provided by (used in) operations		<b>(49,370)</b>	2,436,551
Interest received	18	1,787	2,248
Interest paid	17	(82,160)	(380,077)
Income tax paid	19	(272,825)	(243,065)
Net cash flow provided by (used in) operating activities		<b>(402,568)</b>	1,815,657
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	9	(309,597)	(118,741)
Disposal of property and equipment	9	-	17,605
Decrease in other noncurrent assets	8	65,745	-
Net cash flow used in investing activities		<b>(243,852)</b>	(101,136)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in loan payables	11	(1,188,474)	(243,481)
Increase in deposit for future stock subscription	13	(937,500)	937,500
Issuance of shares of stocks	14	2,836,450	2,199,250
Net cash flow provided by financing activities		<b>710,476</b>	2,893,269
<b>NET INCREASE IN CASH</b>		<b>64,056</b>	4,607,790
<b>CASH AT BEGINNING OF THE YEAR</b>	5	<b>6,232,526</b>	1,624,736
<b>CASH AT END OF THE YEAR</b>		<b>P 6,296,582</b>	P 6,232,526

See accompanying Notes to Financial Statements.

# MGA LIKHA NI INAY, INC.

## NOTES TO FINANCIAL STATEMENTS

As of and for the years ended December 31, 2022 and 2021

---

### 1. Corporate Information

MGA LIKHA NI INAY, INC. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 2014, with an SEC registration number of CS201408286. 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 the Center for Agriculture and Rural Development-Mutually Reinforcing Institutions (CARD-MRI).

The Company is 25.32% in 2022 and 44.00% in 2021 owned by the CARD Business Development Service Foundation, Inc., a major stockholder.

The Company's registered address is located at 20 M.L. Quezon Street, City Subdivision, San Pablo City, Laguna.

---

### 2. Financial Reporting Framework

#### Basis of Preparation

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

#### Statement of Compliance

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

---

### 3. Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, the event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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

#### Current versus Non-current Classification

The Company presents assets and liabilities in statement of financial position based on current/noncurrent classification. An asset is current when it is:

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



All other assets are classified as non-current.

A liability is current when:

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

All other liabilities are classified as non-current.

### Cash

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

### Financial Instruments

#### *Initial recognition and measurement of financial instruments*

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

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

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

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

- a) Return to the holder is a fixed amount; a fixed rate of return over the life of the instrument; a variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate; or some combination of such fixed rate and variable rates, provided that both the fixed and variable rates are positive.
- b) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.
- c) Contractual provisions that permit the issuer (the debtor) to prepay a debt instrument or permit the holder (the creditor) to put it back to the issuer before maturity are not contingent on future events.
- d) There are no conditional returns or repayment provisions except for the variable rate of return described in (a) and the prepayment provisions described in (c).

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

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

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

### *Derecognition of Financial Assets and Liabilities*

#### *i. Financial assets*

A financial asset is derecognized when:

1. the contractual rights to the cash flows from the financial asset have expired or are settled; or
2. the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset.

#### *ii. Financial liabilities*

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

### *Impairment of Financial Assets*

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

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

### Inventories

Inventories are stated at the lower of cost and their 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 represents the related replacement costs. Any decrease in inventories arising from the write down of cost to NRV is recognized under the 'Provision for inventory losses' account in the statement of 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 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 the cost to sell. If the cost of an item of the inventory is higher than NRV, its carrying amount is reduced to the selling price less the cost to sell and loss is recognized immediately in the statement of income. The inventory is eventually written off against the related provision in cases of obsolescence or when inventory is no longer saleable.

### Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured in 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.

### Other Current Assets

Other current assets represent assets of the Company that are expected to be realized or consumed within one year or within the Company's normal operating cycle whichever is longer. Other current assets are presented in the financial position at cost.

### Property and Equipment

Property and equipment are tangible assets that are held for use in the supply or services and for administrative purposes and are expected to be used during more than one period.



Items of property and equipment are initially measured at cost. Such cost includes the purchase price and all incidental costs necessary to bring the asset to its location and condition. Subsequent to initial recognition, items of property and equipment are measured in the statement of financial position at cost less accumulated depreciation and any accumulated impairment losses. Depreciation, which is computed on a straight-line basis, is recognized to allocate the cost of assets less their residual values over their estimated useful lives.

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

When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts, and any resulting gain or loss is reflected in profit or loss for the period.

#### *Impairment of Non-Financial Assets*

Non-financial assets are assessed at each reporting date to determine whether there is any indication that the assets are impaired. When an impairment indicated is identified, the carrying value of the asset is tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. If the recoverable amount cannot be estimated for an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are independent of the cash flows from other assets within the Company.

If an impairment indicator no longer exists or the recoverable amount has increased subsequently, the Company will determine the amount of impairment loss that can be reversed to the extent that the reversal should not result in a carrying amount of the asset that is higher had no impairment loss was recognized in the prior years.

#### Provisions and Contingencies

##### *Provisions*

Provisions are recognized only when the Company has an obligation as a result of a past event; it is probable that the Company will be required to transfer economic benefits in the settlement; and the amount of obligation can be estimated reliably.

Provisions are recognized initially at the best estimate of the amount required to settle the obligation. Subsequently, the Company charged to the provision only those expenditures for which the provision was originally recognized.

##### *Contingent Assets and Liabilities*

Contingent assets and liabilities are not recognized in the statement of financial position.

##### Capital Stock

The 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 represent the cumulative balance of periodic net income, prior period adjustments and effect of changes in accounting policies, and other capital adjustments, net of any dividend declaration. Dividends, except for stock dividends, are recognized as a liability and deducted from equity when they are approved by the Company's Board of Directors and/or stockholders. Dividends for the period that are approved after the end of the financial reporting period are dealt with as an event after the financial reporting period. Retained earnings may also include the effect of changes in accounting policy as may be required by the accounting standard's transitional provisions.

##### 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 the 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.

### *Service fee*

Service fee 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.

### *Interest income*

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

### *Other income*

Other income is recognized when cash is received.

### Expenses

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

Expenses are recognized in the statement of 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 statement of financial position as an asset.

Cost of sales are costs that include all expenses associated with the specific sale of goods. Cost of sales include the purchase price and capitalizable purchase costs less any related purchase returns, discounts and allowances. Such costs are recorded in the statement of income upon recognition of sales.

### Retirement Benefits

The Company operates a defined benefit retirement plan which requires a 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 nonroutine settlements are recognized as an expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in profit or loss in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The 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 whether the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

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

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

### *Company as lessee*

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

### Income Tax

#### Current tax

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

#### Deferred tax

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

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

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

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

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

#### Related Parties

Parties are considered to be related if one party has the ability to, directly or indirectly, control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Related parties include members of key management personnel, including directors and officers of the Company and their close family members, and companies associated with these individuals. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

#### Foreign Currency Transactions

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

#### Events after the Reporting Date

Events after the reporting date that provide additional information about conditions existing at period end (adjusting events) are recognized in the financial statements. Events after the reporting date that provide additional information about conditions existing after the period end (non-adjusting events) are disclosed in the notes to the financial statements.

---

## **4. Information About Key Sources of Estimation Uncertainty and Judgments**

Estimates and judgments are continually evaluated. They are based on historical experience and other factors, including expectations of the future.

#### Estimates

The key sources of estimation are uncertainties at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) Recoverable value of inventories

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

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

##### (b) Present value of retirement asset

The determination of the Company's retirement cost is dependent on certain assumptions used by the actuary in calculating the amount. Those assumptions are described in Note 12 to the financial statements and include, among others, discount rate, future salary increase, and average remaining working lives of employees. While management believes that the assumptions are reasonable and appropriate, significant differences in the Company's actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

(c) 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 of December 31, 2022 and 2021, the Company's unrecognized deferred tax assets are disclosed in Note 19.

**5. Cash**

This account consists of:

		<b>2022</b>		2021
Cash in banks	P	<b>6,271,582</b>	P	6,188,235
Petty cash		<b>25,000</b>		25,000
Cash on hand		-		19,291
	<b>P</b>	<b>6,296,582</b>	<b>P</b>	<b>6,232,526</b>

Cash in banks consists of savings deposit accounts, with annual interest rates ranging from 0.25% to 1.00% in 2022 and 2021. The Company earned interest income amounting to P1,787.33 and P2,248 in 2022 and 2021, respectively.

**6. Trade and Other Receivables**

This account consists of:

		<b>2022</b>		2021
Trade receivables	P	<b>929,782</b>	P	3,052,775
Due from affiliates		<b>1,438,850</b>		14,393
		<b>2,368,632</b>		3,067,168
Less: allowance for uncollectible accounts		<b>(179,056)</b>		(393,227)
	<b>P</b>	<b>2,189,576</b>	<b>P</b>	<b>2,673,941</b>

Trade receivables pertain to transactions that arise from the ordinary course of business and are non-interest bearing and generally collectible on a 30-day period.

Due from affiliates 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.

The movements in the allowance for uncollectible accounts are as follows:

		<b>2022</b>		2021
Beginning balance	P	<b>393,227</b>	P	-
Additions		<b>700,793</b>		393,227
Write-offs		<b>(914,964)</b>		-
Ending balance	<b>P</b>	<b>179,056</b>	<b>P</b>	<b>393,227</b>

---

**7. Inventories**

This account consists of:

		2022		2021
Inventories	P	5,268,335	P	990,846
Less: allowance for inventory losses		(366,203)		-
	P	4,902,132	P	990,846

Inventories in 2022 pertain to Indomie Mi Goreng, coffee, coco sugar, handwoven fan, and groceries intended for sale. Inventories in 2021 pertain to turmeric, woven fabrics, woodcrafts, leather works, ethnic accessories, and groceries intended for sale.

The Company has written off its provision for probable loss for inventory that amounted to P43,541 and P143,283 as the management determined that these are no longer saleable in 2022 and 2021, respectively.

The movements in the allowance for inventory losses are as follows:

		2022		2021
Beginning balance	P	-	P	103,754
Additions		409,744		39,529
Write-off		(43,541)		
Reversal		-		(143,283)
Ending balance	P	366,203	P	-

---

**8. Other Assets**

This account consists of:

		2022		2021
<b>Current:</b>				
Excess tax credits	P	363,326	P	618,777
Prepaid expenses - current portion		467,332		178,870
		830,658		797,647
<b>Noncurrent:</b>				
Prepaid expenses - noncurrent portion		5,261		71,006
		5,261		71,006
	P	835,919	P	868,653

Excess tax credits include payment of excess of MCIT over RCIT and excess creditable withholding taxes that could be claimed as tax credits on tax returns after this reporting period.

Prepaid expenses consist of unexpired insurance premiums, security deposit on equipment, and advance rental for the lease of office and outlet spaces.

## 9. Property and Equipment - Net

The details of property and equipment as of December 31, 2022 are as follows:

	Transportation Vehicle	Computer and Printing Equipment	Furniture, Fixtures, and Other Equipment	Total
Cost:				
Balance at beginning of year	P 686,460	P 725,929	P 523,689	P 1,936,078
Additions	-	285,536	24,062	309,598
Balance at end of year	686,460	1,011,465	547,751	2,245,676
Accumulated Depreciation				
Balance at beginning of year	686,360	586,823	380,405	1,653,588
Depreciation	-	95,489	72,559	168,048
Balance at end of year	686,360	682,312	452,964	1,821,636
<b>Net Carrying Value</b>	<b>P 100</b>	<b>P 329,153</b>	<b>P 94,787</b>	<b>P 424,040</b>

The details of property and equipment as of December 31, 2021 are as follows:

	Transportation Vehicle	Computer and Printing Equipment	Furniture, Fixtures, and Other Equipment	Total
Cost:				
Balance at beginning of year	P 686,460	P 670,581	P 487,796	P 1,844,837
Additions	-	55,348	63,393	118,741
Disposal	-	-	(27,500)	(27,500)
Balance at end of year	686,460	725,929	523,689	1,936,078
Accumulated Depreciation				
Balance at beginning of year	686,360	499,686	325,782	1,511,828
Depreciation	-	87,137	64,518	151,655
Disposal	-	-	(9,895)	(9,895)
Balance at end of year	686,360	586,823	380,405	1,653,588
<b>Net Carrying Value</b>	<b>P 100</b>	<b>P 139,106</b>	<b>P 143,284</b>	<b>P 282,490</b>

## 10. Trade and Other Payables

This account consists of:

	2022	2021
Due to affiliates	P 2,941,415	P 3,672,889
VAT payable	901,596	308,929
Accounts payable	791,216	830,616
Accrued expenses	120,105	88,051
Withholding taxes payable	65,390	28,337
	<b>P 4,819,722</b>	<b>P 4,928,822</b>

Accrued expenses consist of unpaid employee benefits, professional fees, interest payable, 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.

## 11. Loan Payables

This account consists of:

		2022		2021
<b>Face value</b>				
Balance at beginning of year	P	1,188,474	P	1,431,955
Availment		-		2,000,000
Principal payments		(1,188,470)		(2,243,481)
Adjustment		(4)		-
Balance at end of year		-		1,188,474
<b>Net discount</b>				
Balance at beginning of year		154,860		71,383
Availment		-		480,000
Principal payments		(59,648)		(396,523)
Adjustment		4		-
Balance at end of year		95,216		154,860
Net carrying value		(95,216)		1,033,614
Add: Interest		95,216		154,860
<b>Balance at end of year</b>	<b>P</b>	<b>-</b>	<b>P</b>	<b>1,188,474</b>
Less: Current portion		-		(1,188,474)
Noncurrent portion	<b>P</b>	<b>-</b>	<b>P</b>	<b>-</b>

On January 20, 2021, the Company and CARD Leasing and Finance Corporation (CLFC) entered two (2) loan agreements with a principal amount of P1,000,000 each, a total of P2,000,000. Both of the loan agreements have an annual interest rate of 12% with a two-year term and maturity date on January 20, 2023. The monthly payment of P51,667 for each loan agreement started on February 20, 2021.

## 12. 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 complies with the requirements of Republic Act No. 7641 (Retirement Law). MERP provides lump sum benefits equivalent to up to 120% of the 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 of December 31, 2022.

The principal assumptions used in determining pension for the defined benefit plans of the Company as of December 31, 2022 and 2021 are shown below:

	2022	2021
Discount rate	7.32%	5.16%
Salary increase rate	5.00%	5.00%



In addition to the Company's defined benefit retirement plan, the Company also operates a defined contribution plan referred to as a "Hybrid Plan" which provides a retirement benefit equal to 100% of the member's employer accumulated value (the Company's contributions of 8% plan salary to Fund A plus credited earnings) and 100.0% of the member's employee accumulated value (member's contributions up to 10% of plan salary to Fund B plus credited earnings), if any, provided that in no case shall 100% of the employee accumulated value in Fund A be less than 100% of plan salary for every year of credited service.

The amounts recognized in the statement of financial position follows:

		<b>2022</b>		2021
Fair value of plan assets	P	<b>1,757,796</b>	P	1,670,714
Present value of defined benefit obligation		<b>(252,959)</b>		(377,042)
Effect of asset ceiling		<b>(1,030,914)</b>		(821,785)
<b>Net defined benefit asset</b>	<b>P</b>	<b>473,923</b>	<b>P</b>	<b>471,887</b>

The total retirement benefit expense recognized in the statement of income follows:

		<b>2022</b>		2021
Current service cost (Note 17)	P	<b>20,998</b>	P	95,592
Interest - net (Note 17)		<b>(32,828)</b>		(19,340)
Remeasurement loss on retirement plan (Note 18)		<b>73,201</b>		108,175
	<b>P</b>	<b>61,371</b>	<b>P</b>	<b>184,427</b>

The movements in the net retirement asset follows:

		<b>2022</b>		2021
Balance at the beginning of the year	P	<b>471,887</b>	P	639,135
Retirement income (expense)		<b>11,830</b>		(76,252)
Remeasurement gain (loss) on retirement plan		<b>(73,201)</b>		(108,175)
Contributions paid		<b>63,407</b>		17,179
<b>Balance at the end of the year</b>	<b>P</b>	<b>473,923</b>	<b>P</b>	<b>471,887</b>

The movements in the present value of pension obligation follows:

		<b>2022</b>		2021
Balance at the beginning of the year	P	<b>377,042</b>	P	839,402
Current service cost		<b>20,998</b>		95,592
Interest cost		<b>19,455</b>		33,576
Transfer from plan assets		<b>265,192</b>		-
Actuarial changes arising from changes in demographic assumptions		<b>(5,217)</b>		797
Actuarial changes arising from changes in financial assumptions		<b>(78,497)</b>		5,767
Actuarial changes arising from experience		<b>(346,014)</b>		(598,092)
<b>Balance at the end of the year</b>	<b>P</b>	<b>252,959</b>	<b>P</b>	<b>377,042</b>

The movements in the fair value of plan assets follows:

		<b>2022</b>		2021
Balance at the beginning of the year	P	<b>1,670,714</b>	P	1,591,022
Interest income		<b>94,687</b>		57,415
Transfer from plan assets		<b>265,192</b>		-
Contributions		<b>63,407</b>		17,179
Return on plan assets, net of interest		<b>(336,204)</b>		5,098
<b>Balance at the end of the year</b>	<b>P</b>	<b>1,757,796</b>	<b>P</b>	<b>1,670,714</b>

The changes in remeasurement loss on retirement plan follows:

	<b>2022</b>		2021	
Return on plan assets, net of interest	<b>P</b>	<b>336,204</b>	<b>P</b>	(5,098)
Actuarial changes arising from changes in financial assumptions		<b>(78,497)</b>		5,767
Actuarial changes arising from changes in demographic assumptions		<b>(5,217)</b>		797
Experience adjustments		<b>(346,014)</b>		(598,092)
Effect of asset ceiling		<b>166,725</b>		704,801
<b>Total</b>	<b>P</b>	<b>73,201</b>	<b>P</b>	108,175

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

	<b>2022</b>	2021
Cash and cash equivalents	<b>16.39%</b>	40.74%
Debt instruments - government bonds	<b>68.65%</b>	42.95%
Debt instruments - other bonds	<b>5.20%</b>	5.58%
Loans	<b>8.39%</b>	8.46%
Mutual funds	<b>0.00%</b>	0.00%
Real estate	<b>0.00%</b>	0.00%
Other assets	<b>1.37%</b>	2.27%
	<b>100.00%</b>	100.00%

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

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

	<b>2022</b>		2021	
	<b>Increase of 1.0%</b>	<b>Decrease of 1.0%</b>	Increase of 1.0%	Decrease of 1.0%
Discount rate	<b>P 32,138</b>	<b>P (26,495)</b>	P 8,131	P (6,620)
Future salary increase	<b>32,577</b>	<b>(27,262)</b>	8,059	(6,686)

The average duration of the defined benefit obligation at the end of each reporting period is 11.6 years and 15 years in 2022 and 2021, respectively.

Shown below is the 10-year maturity analysis of the undiscounted benefit payments of the Company:

	2022		2021	
Less than 1 year	P	27,324	P	713
More than 1 year to 5 years		99,351		5,355
More than 5 years to 10 years		144,437		16,006
	P	271,112	P	22,074

### 13. Deposit for Future Stock Subscriptions

On May 15, 2021, the Board of Directors of the Company met and approved the increase in the authorized capital stock of the Company from P5,000,000 (divided into 5,000 common shares with a par value of P100) to P20,000,000 (divided into 200,000 common shares with a par value of P100). The aforementioned increase in the authorized capital stock of the Company was likewise approved by the stockholders in their regular meeting held on May 15, 2021.

The Company entered into subscription agreements with different subscribers and approved a total amount of P5,000,000 consisting of 50,000 shares. On the said subscriptions, The Company received during the year a total of P937,500 during the year as a deposit for future stock subscriptions. The unissued authorized capital of the Company is insufficient to cover the number of shares indicated in the subscription agreements. The cash received by the Company was recognized as Deposits for Future Stock Subscriptions as of December 31, 2021, in compliance with the applicable SEC reporting requirements.

The application for the approval of the proposed increase in the authorized capital stock has been presented for filing or has been filed with the Commission. The Company formally applied with the SEC on November 3, 2021. From November 10 to December 29, 2021, the Company, through its counsel, received via electronic mail the findings of the SEC concerning the application. In compliance with the SEC's findings, the Company worked to provide and completed the additional requirements of the Commission.

The Company paid on January 10, 2022 the filing fees for the application of an increase in the authorized capital stock. On January 10, 2022, the Company's application for the increase in the authorized capital stock has been filed and received by the SEC.

On January 20, 2022, the SEC approved and issued the certificate of approval for the Company's increase in authorized capital stock.

### 14. Capital Stock

The Company's capital stock as of December 31, 2022 and 2021 consists of:

	2022		2021	
	Shares	Amount	Shares	Amount
Common stock - P100 par value, 150,000 authorized shares				
Issued and outstanding				
Balance at the beginning of the year	50,000	P 5,000,000	28,008	P 2,800,750
Application of deposit for future stock subscription	9,370	937,000	-	-
Collection of subscription receivables	18,995	1,899,450	-	-
Additional issuance of stocks	-	-	21,993	2,199,250
Balance at the end of the year	50,000	P 7,836,450	50,000	P 5,000,000

The Company paid on January 10, 2022 the filing fees for the application of an increase in the authorized capital stock. On January 10, 2022, the Company's application for the increase in the authorized capital stock has been filed and received by the SEC.

On January 20, 2022, the SEC approved and issued the certificate of approval for the Company's increase in authorized capital stock.

#### Capital Management

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

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

---

## 15. Revenues

This account consists of:

		<b>2022</b>		2021
Sales	P	<b>29,401,738</b>	P	24,555,820
Service fee		<b>2,897,307</b>		1,752,335
Gross sales		<b>32,299,045</b>		26,308,155
Less: Sales discount		<b>(2,953)</b>		-
Net revenues	P	<b>32,296,092</b>	P	26,308,155

---

## 16. Cost of Services and Cost of Goods Sold

### a. Cost of Services

As of December 31, 2022 and 2021, the Cost of Services amounted to P532,999 and P769,270, respectively.

### b. Cost of Goods Sold

This account consists of:

		<b>2022</b>		2021
Inventories at beginning of period	P	<b>990,846</b>	P	4,050,919
Purchases during the period		<b>25,513,313</b>		14,345,698
Inventories available for sale		<b>26,504,159</b>		18,396,617
Inventories at end of period		<b>4,902,132</b>		990,846
	P	<b>21,602,027</b>	P	17,405,771

## 17. Administrative Expenses

Details of administrative expenses are as follows:

		2022		2021
Compensation and employee benefits	P	1,521,590	P	2,486,863
Provision on uncollectible accounts		700,793		393,227
Rent		513,993		503,556
Supplies and materials		496,872		514,635
Outsourced services		486,077		380,329
Transportation and travel		385,603		208,016
Provision on loss on inventory		366,203		-
Information technology		336,819		363,255
Repairs and maintenance		242,976		143,891
Advertising and publicity		236,153		135,145
Insurance		219,119		166,184
Taxes and licenses		198,493		69,120
Depreciation		168,047		151,655
Utilities		152,589		153,762
Miscellaneous		130,918		625,892
Interest expense		82,160		380,077
Directors' fee		72,222		83,333
Management and professional fees		63,154		27,000
Staff training and development		50,628		20,417
Loss on inventory		43,541		143,283
Seminars and meetings		39,186		47,789
Program monitoring and evaluation		32,602		25,343
Representation expense		17,468		6,979
Communications and postage		10,325		62,704
Supervision and examination		1,115		13,530
Product development		1,000		9,149
	P	6,569,646	P	7,115,134

The composition of the compensation and employee benefits above are shown below:

		2022		2021
Salaries and wages	P	886,988	P	1,440,906
Short-term employee benefits and other contributions		646,432		969,704
Retirement benefits		(11,830)		76,253
	P	1,521,590	P	2,486,863

Miscellaneous includes bank charges, antigen tests, garbage disposal, small gifts and tokens, and fines and penalties.

## 18. Other Income (Charges) - Net

This account consists of:

		2022		2021
Actuarial loss on retirement plan	P	(73,201)	P	(108,175)
Interest income from bank deposits		1,787		2,248
Others		8,723		60,082
	P	(62,691)	P	(45,845)

In 2022, the other income included an outstanding, untraced cash deposit in the Company's bank account.

**19. Income Taxes****a. Optional Standard Deduction**

Effective July 2008, Republic Act 9504 was approved giving corporate taxpayers an option to claim an itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2022 and 2021, the Company opted to continue claiming itemized deduction scheme in its computation of income tax.

**b. CREATE Act**

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

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

**c. Tax Computation**

<b>Regular Corporate Income Tax (RCIT) under CREATE Act</b>	<b>2022</b>		<b>2021</b>	
Revenue	<b>P</b>	<b>32,296,092</b>	<b>P</b>	26,308,155
Less: Cost of Services and Cost of Goods Sold		<b>(22,135,026)</b>		(18,175,041)
Gross income from operation		<b>10,161,066</b>		8,133,114
Add: Other income		<b>8,723</b>		60,082
Total Gross income		<b>10,169,789</b>		8,193,196
Less: Itemized deduction		<b>(5,470,582)</b>		(6,070,358)
Net Operating Loss Carry-over (NOLCO)		<b>(621,847)</b>		(2,122,838)
<b>Taxable income</b>	<b>P</b>	<b>4,077,360</b>	<b>P</b>	-
Income tax expense - at 20%	<b>P</b>	<b>815,472</b>	<b>P</b>	-
MCIT - at 1%		<b>101,698</b>		81,932
Total income tax due		<b>815,472</b>		81,932
Income taxes paid and tax credits:				
Prior year's excess tax credit		<b>(618,777)</b>		(458,075)
Excess MCIT over RCIT		<b>(287,553)</b>		-
Creditable taxes withheld for the year		<b>(272,468)</b>		(242,634)
<b>Income tax payable (overpayment)</b>	<b>P</b>	<b>(363,326)</b>	<b>P</b>	<b>(618,777)</b>

d. Reconciliation between accounting income and taxable income is presented below:

	2022		2021	
Accounting income	P	3,528,729	P	972,135
Reconciling items:				
Interest income subject to final tax		(1,787)		(2,248)
Actuarial loss on retirement plan		73,201		108,175
Penalties and surcharges		-		448,742
Provision on loss on inventory		366,203		-
Interest expense		357		450
Loss on inventory		43,541		143,283
Provision on uncollectible accounts		700,793		393,227
Retirement plan (income) expense		(11,830)		59,074
Net Operating Loss Carry-over (NOLCO)		(621,847)		(2,122,838)
Taxable income	P	4,077,360	P	-

e. Provision for income tax consists of:

	2022		2021	
Current:				
Income tax	P	815,472	P	-
MCIT		-		81,932
Final tax		357		431
Income tax adjustment (effect of CREATE Act in 2021)		-		(26,180)
	P	815,829	P	56,183

f. The Company did not recognize deferred tax assets (liabilities) on the following:

	2022		2021	
Retirement asset	P	(473,923)	P	(471,887)
Allowance for inventory losses		(366,203)		-
Excess MCIT over RCIT		-		287,554
Net Operating Loss Carry-over (NOLCO)		-		(621,847)

g. Details of excess of MCIT over RCIT follow:

Year incurred	Amount	Applied	Expired	Balance	Expiry year
2021	P 81,932	P 81,932	P -	P -	2024
2020	78,539	78,539	-	-	2023
2019	127,082	127,082	-	-	2022
Total	P 287,553	P 287,553	P -	P -	

h. Computation of Available Net Operating Loss Carry Over (NOLCO)

Year Incurred	Amount	Applied Previous Year	Expired	Applied Current Year	Unapplied
2020	P 621,847	P -	P -	P (621,847)	P -

Net Operating Loss Carry-over - For NOLCO incurred for the taxable year 2020, the Company is allowed to carry over the NOLCO for the next five (5) consecutive taxable years immediately following the year of such loss.

## 20. Related Party Transactions

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

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

The Company 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.

The total compensation for key management personnel amounted to P848,237 and P727,232 in 2022 and 2021, respectively.

### *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, 2022 and 2021, transactions with related parties are as follows:

<b>2022</b>			
<b>Category</b>	<b>Amount / Volume</b>	<b>Outstanding Balance</b>	<b>Nature, Terms and Conditions</b>
<b><i>Affiliates</i></b>			
Cash in banks		<b>5,242,559</b>	This pertains to checking and savings accounts with an annual interest of 0.25%.
Deposits	<b>45,067,994</b>		
Withdrawals	<b>44,481,187</b>		
Accounts receivable		<b>1,438,850</b>	This pertains to unremitted collections made on behalf of the Company for the sale of souvenirs, and agricultural products. Also includes a share of expenses at meetings held by the CARD-MRI group (unimpaired, due, and demandable).
Billings	<b>25,510,794</b>		
Collections	<b>24,086,337</b>		
Other income	<b>2,906,030</b>		This pertains to the service fees for the facilitation of food during meetings and for the purchase of giveaways.
Accounts payable		<b>2,941,415</b>	This pertains to unpaid inventories purchased by other CARD-MRI entities and loans from CLFC.
Billings	<b>178,939</b>		
Payments	<b>910,413</b>		
Loans payable		-	This pertains to loan agreements with CLFC.
Availments	-		
Payments	<b>1,188,474</b>		
Interest expense	<b>396,523</b>		This pertains to 12% interest on financing loans.



2021

Category	Amount / Volume	Outstanding Balance	Nature, Terms and Conditions
<b>Affiliates</b>			
Cash in banks		4,655,752	This pertains to checking and savings accounts with an annual interest of 0.25%.
Deposits	37,719,108		
Withdrawals	33,960,291		
Accounts receivable		14,393	This pertains to unremitted collections made on behalf of the Company for the sale of souvenirs, and agricultural products. Also includes a share of expenses at meetings held by the CARD-MRI group (unimpaired, due, and demandable).
Billings	30,949,042		
Collections	31,093,981		
Other income	1,812,416		This pertains to the service fees for the facilitation of food during meetings and for the purchase of giveaways.
Accounts payable		3,672,889	This pertains to unpaid inventories purchased by other CARD-MRI entities and loans from CLFC.
Billings	801,639		
Payments	2,009,091		
Loans payable		1,188,474	This pertains to loan agreements with CLFC.
Availments	2,000,000		
Payments	2,243,481		
Interest expense	396,523		This pertains to 12% interest on financing loans.

## 21. Leases

### As a Lessee

The Company leases offices and outlets. The lease contracts are for one to three years and are renewable upon mutual agreement between the Company and the lessors.

The future aggregate minimum lease payments under operating leases are as follows:

		2022		2021
Not later than one year	P	505,325	P	301,931
Later than one year and not later than five years		1,064,248		460,464
	P	1,569,573	P	762,395

The total rent expenses recognized in 2022 and 2021 are disclosed in Note 17. The total security deposit related to these operating leases amounted to P46,010 and P84,533 in 2022 and 2021, respectively.

## 22. Prior period adjustment

In 2022, an understatement of account was discovered in the prior period financial statements. This was corrected I balance of Retained Earnings.

<u>Nature</u>	<u>Accounts Affected</u>	<u>Before Restatement</u>	<u>Correction</u>	<u>After Restatement</u>
Understatement of prepaid income tax	Other current assets	P 543,105	P 287,553	P 830,658

---

**23. Other Matter**
COVID-19 Impacts

Since December 31, 2019 to December 31, 2022, the spread of COVID-19 has severely impacted many economies around the globe. In many countries, businesses were forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions. In the Philippines, varying quarantine measures were implemented beginning on March 17,

The Company's management has assessed and addressed the impacts of COVID-19. As of December 31, 2022 and 2021, all COVID-19 determinable impacts on the Company's 2022 financial statements have been either adjusted or disclosed.

Uncertainties due to COVID-19 may still exist as the pandemic has not been officially declared over globally (although the state of public health emergency in the Philippines has been extended only until December 31, 2022). Even so, management confirms the validity of the going concern assumption for the Company. The Company has adequate funds and liquidity for its subsequent operations.

---

**24. Approval of the Release of the Financial Statements**

The accompanying financial statements were reviewed and approved for release by the Company's Board of Directors on March 23, 2023.

---

**25. Supplementary Information Required by the Bureau of Internal Revenue**
I. Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 15-2010 which prescribes additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying the tax returns. Under the said RR, companies are required to disclose, in addition to the disclosures mandated under PFRS for SEs and such other standards and/or conventions, taxes, duties, and license fees paid or accrued during the taxable year. Following is the required information under RR No. 15-2010 for the year ended December 31, 2022:

## a. Withholding Taxes

The amount of withholding taxes paid/accrued for the year ended December 31, 2022:

		<b>Paid</b>		<b>Payable</b>
Expanded withholding taxes	<b>P</b>	<b>354,842</b>	<b>P</b>	<b>67,695</b>
Tax on compensation and benefits		<b>3,300</b>		<b>-</b>
	<b>P</b>	<b>358,142</b>	<b>P</b>	<b>67,695</b>

## b. Other Taxes Paid

The following are the other taxes paid by the Company during the year recognized under Taxes and licenses account:

Documentary stamp tax			<b>P</b>	<b>148,925</b>
SEC filing fee				<b>32,410</b>
Business permit				<b>12,633</b>
Motor vehicle registration				<b>3,525</b>
Annual registration fee				<b>1,000</b>
			<b>P</b>	<b>198,493</b>

## c. Value-Added Tax (VAT)

The work forward analysis of the Company's output and input VAT for its sales and purchases is as follows:

<i>Output VAT</i>				
Vatable sales/receipts	P	30,520,707	P	<b>3,662,485</b>
Exempt sales/receipts		1,733,595		-
Total Output VAT		32,254,301		<b>3,662,485</b>
<i>Input VAT</i>				
Balance at beginning of the year				-
Add: Purchases or payments for:				
Goods (Domestic)	P	13,648,089		<b>1,637,771</b>
Services (Domestic)		732,955		<b>87,955</b>
Total Input VAT		13,648,089		<b>1,725,725</b>
Total VAT remitted/accrued			<b>P</b>	<b>1,936,759</b>

## d. Tax Assessments and Cases

On February 10, 2021, the Company received a Letter of Authority (LOA) No. 055-2021-00000007/ eLA201500002506 dated February 3, 2021 for the examination of the Company's books of accounts and other accounting records for all internal revenue taxes for the period from January 1, 2019 to December 31, 2019. On July 13, 2021, the Company received a replacement LOA No. 055-2021-00000161/ eLA201500003432 for the continuation of the BIR audit for the taxable year 2019. As of December 31, 2022, the tax investigation is still in progress.

**II. Revenue Regulation No. 34-2020**

On December 21, 2020, the Bureau of Internal Revenue issued RR No. 34-2020 which prescribes the guidelines and procedures for the submission of BIR Form 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents. Under the said RR, companies are required to disclose if they are not covered by Section 2 of the RR which provides the taxpayers required to file and submit Form 1709 Information Return on Related Party Transactions, together with the Annual Income Tax Return. The supplementary information below is presented for purposes of filing with the Bureau of Internal Revenue and is not required by the PFRS for SEs.

The Company is not covered by the requirements and procedures for related party transactions provided under Section 2 of RR 34-2020.