

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **MEDILINES DISTRIBUTORS INCORPORATED** (the Company) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of and for the six months then ended June 30, 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

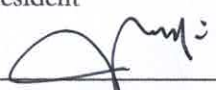
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.




Maria Patricia Dolor Villar Yambing
President

Margarita Villarico
Treasurer

SUBSCRIBED AND SWORN TO BEFORE ME,
THIS DAY OF ~~06 OCT~~ 2021 AT TAGUIG CITY

Signed this 5th day of October, 2021

DOC NO. 334
PAGE NO. 67
BOOK NO. 11
SERIES OF 2021


ATTY. IRISH S. PRECION
Roll of Attorney's No. 69281/05.31.17
PTR No. A-5061759/01.14.2021 (Taguig City)
IBP No. 111043/01.08.2020
MCLE Exemption No. VI-002453 valid until 14, April 2022
Unit 1124 Tower 2 Grace Residences Condominium
Levi Mariano Ave. Taguig City



FOR SEC FILING

Financial Statements and
Independent Auditors' Report

Medilines Distributors Incorporated

For the Six Months Ended June 30, 2021 and 2020

Report of Independent Auditors

The Board of Directors

Medilines Distributors Incorporated

No. 7 Pioneer St., corner Sheridan St.
Barangay Highway Hills, Mandaluyong City

Opinion

We have audited the financial statements of Medilines Distributors Incorporated (the Company), which comprise the statements of financial position as of June 30, 2021 and December 31, 2020, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the six months ended June 30, 2021 and 2020, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2021 and December 31, 2020, and its financial performance and its cash flows for the six months ended June 30, 2021 and 2020 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which discusses that the financial statements have been revised and reissued to amend and to include additional information on the Company's certain transactions during the periods presented.

This report supersedes our audit report on the previously issued financial statements dated August 6, 2021.

Our opinion is not modified in respect of this matter.

Other Matter

The financial statements have been prepared solely for the inclusion in the prospectus prepared by the Company in connection with its planned initial public offering and for no other purpose.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

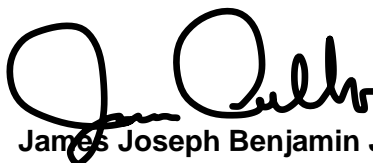
As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PUNONGBAYAN & ARAULLO



By: **James Joseph Benjamin J. Araullo**
Partner

CPA Reg. No. 0111202
TIN 233-090-319
PTR No. 8533220, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 1762-A (until Aug. 5, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-039-2018 (until Nov. 26, 2021)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

October 5, 2021

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2021 AND DECEMBER 31, 2020
(Amounts in Philippine Pesos)

	Notes	June 30, 2021	December 31, 2020
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash	5	P 80,217,770	P 62,449,900
Trade and other receivables - net	6	1,857,970,443	1,620,393,289
Contract assets	14	1,109,954,462	961,587,571
Inventories - net	7	184,551,402	230,727,029
Prepayments and other current assets	8	15,871,546	27,749,312
Total Current Assets		3,248,565,623	2,902,907,101
NON-CURRENT ASSETS			
Property and equipment - net	9	140,790,410	165,975,928
Right-of-use asset - net	10	3,179,596	5,801,663
Guarantee deposits		2,366,122	2,016,822
Deferred tax assets	18	14,006,059	9,379,502
Total Non-current Assets		160,342,187	183,173,915
TOTAL ASSETS		P 3,408,907,810	P 3,086,081,016
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade and other payables	11	P 1,641,437,978	P 1,169,791,201
Loans and other borrowings	12	1,040,791,001	1,119,979,767
Contract liabilities	14	69,338,306	3,605,729
Income tax payable		33,895,127	37,288,830
Total Current Liabilities		2,785,462,412	2,330,665,527
NON-CURRENT LIABILITIES			
Loans and other borrowings	12	78,747,436	90,710,762
Deposit for future stock subscription	20	37,500,000	-
Lease liability	10	-	4,159,299
Retirement benefit obligation	17	6,948,186	4,343,118
Total Non-current Liabilities		123,195,622	99,213,179
Total Liabilities		2,908,658,034	2,429,878,706
EQUITY			
Capital stock	20	400,000,000	400,000,000
Retained earnings	20	101,855,662	256,810,119
Revaluation reserves		(1,605,886)	(607,809)
Total Equity		500,249,776	656,202,310
TOTAL LIABILITIES AND EQUITY		P 3,408,907,810	P 3,086,081,016

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
REVENUES	14	P 815,089,992	P 213,701,795
DIRECT COST	15	<u>637,574,765</u>	<u>185,723,964</u>
GROSS PROFIT		177,515,227	27,977,831
OPERATING EXPENSES			
General and administrative expenses	15	43,305,619	39,894,255
Expected credit losses	6	<u>23,322,655</u>	<u>-</u>
		<u>66,628,274</u>	<u>39,894,255</u>
OPERATING PROFIT (LOSS)		<u>110,886,953</u>	(<u>11,916,424</u>)
OTHER INCOME (CHARGES) - Net			
Finance and other income	16	43,387,438	14,842,255
Finance and other charges	16	(<u>23,847,766</u>)	(<u>15,278,369</u>)
		<u>19,539,672</u>	(<u>436,114</u>)
PROFIT (LOSS) BEFORE TAX		130,426,625	(12,352,538)
TAX EXPENSE	18	<u>30,381,082</u>	<u>682,722</u>
NET PROFIT (LOSS)		<u>100,045,543</u>	(<u>13,035,260</u>)
OTHER COMPREHENSIVE LOSS			
Remeasurement loss on retirement benefit obligation	17	(<u>1,330,770</u>)	(424,142)
Tax income	18	<u>332,693</u>	<u>127,243</u>
		(<u>998,077</u>)	(<u>296,899</u>)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)		<u>P 99,047,466</u>	(<u>P 13,332,159</u>)
EARNINGS (LOSS) PER SHARE			
Basic and diluted	21	<u>P 250.11</u>	(<u>P 32.59</u>)

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Amounts in Philippine Pesos)

	Note	Capital Stock	Retained Earnings	Revaluation Reserves	Total
Balance at January 1, 2021		P 400,000,000	P 256,810,119	(P 607,809)	P 656,202,310
Cash dividends	20	-	(255,000,000)	-	(255,000,000)
Total comprehensive income for the period		<u>-</u>	<u>100,045,543</u>	(<u>998,077</u>)	<u>99,047,466</u>
Balance at June 30, 2021	20	<u>P 400,000,000</u>	<u>P 101,855,662</u>	<u>(P 1,605,886)</u>	<u>P 500,249,776</u>
Balance at January 1, 2020		P 400,000,000	P 153,746,567	(P 310,910)	P 553,435,657
Total comprehensive loss for the period		<u>-</u>	(<u>13,035,260</u>)	(<u>296,899</u>)	(<u>13,332,159</u>)
Balance at June 30, 2020	20	<u>P 400,000,000</u>	<u>P 140,711,307</u>	<u>(P 607,809)</u>	<u>P 540,103,498</u>

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit (loss) before tax		P 130,426,625	(P 12,352,538)
Adjustments for:			
Gain on sale of property and equipment	9	(28,894,879)	-
Expected credit losses	6	23,322,655	-
Interest expense	16	21,511,386	13,645,839
Depreciation and amortization	15	5,452,073	6,509,672
Loss on lease modification	16	1,166,873	-
Unrealized foreign exchange losses		93,392	262
Interest income	5, 16	(38,554)	(47,348)
Operating profit before working capital changes		153,039,571	7,755,887
Decrease (increase) in trade and other receivables		(260,899,809)	28,677,815
Increase in contract assets		(148,366,891)	(55,136,663)
Decrease (increase) in inventories		46,175,627	(347,248)
Decrease (increase) in prepayments and other current assets		11,877,766	(31,078,457)
Increase in trade and other payables		213,582,323	34,855,162
Increase (decrease) in contract liabilities		65,732,577	(95,754,822)
Increase (decrease) in retirement benefit obligation		1,606,991	(3,061,776)
Cash generated from (used in) operations		82,748,155	(114,090,102)
Income taxes paid		(38,401,342)	(20,034,146)
Interest paid		(21,511,386)	(13,645,839)
Interest received		38,554	47,348
Net Cash From (Used In) Operating Activities		22,873,981	(147,722,739)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment	9	51,582,073	2,156,697
Acquisitions of property and equipment	9	(945,583)	(4,449,571)
Payment of refundable deposits		(349,300)	-
Net Cash From (Used in) Investing Activities		50,287,190	(2,292,874)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of interest-bearing loans and borrowings	13	(843,377,105)	(145,858,289)
Proceeds from interest-bearing loans and borrowings	13	752,225,013	268,816,732
Proceeds from deposit for future stock subscription	20	37,500,000	-
Payments of lease liability	10	(1,647,817)	(1,094,845)
Cash dividends paid		-	(2,263,542)
Net Cash From (Used in) Financing Activities		(55,299,909)	119,600,056
Effect of Exchange Rate Changes on Cash		(93,392)	(262)
NET INCREASE (DECREASE) IN CASH		17,767,870	(30,415,819)
CASH AT BEGINNING OF PERIOD		62,449,900	63,350,670
CASH AT END OF PERIOD		P 80,217,770	P 32,934,851

Supplemental Information on Non-cash Financing Activity –

On June 23, 2021, the Company declared cash dividends amounting to P255.0 million to stockholders, which remained outstanding as of June 30, 2021. There was no similar transaction in 2020 (see Notes 11 and 20).

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021 AND 2020
(With Comparative Figures as of December 31, 2020)
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Corporate Information

Medilines Distributors Incorporated (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 12, 2002. The Company's primary purpose is to establish, conduct and maintain business of trading and/or distribution by purchasing, acquiring, importing, marketing, trading, distributing, selling, exporting or otherwise do business in all kinds of goods, products, merchandise, medicines, supplies, compounds, machinery, equipment, apparatus, appliances, instruments, or other lawful objects of radiological, scientific, therapeutic, cosmetic, general and miscellaneous purposes and engage in such activities as to accomplish the same including to act as representative or agent, upon consignment or indents orders in any other representative capacity or be under distributorship or other arrangement for natural and juridical persons and entities, whether domestic or foreign.

The registered office of the Company, which is also its principal place of business, is located at No. 7 Pioneer St., corner Sheridan St., Barangay Highway Hills, Mandaluyong City.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the six months ended June 30, 2021 (including the comparative financial statements as of December 31, 2020 and for the six months ended June 30, 2020) were authorized for reissue by the Company's Board of Directors (BOD) on October 5, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB) and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents all items of income and expenses in a single statement of comprehensive income.

The Company presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Company operates.

(d) *Revision and Reissuance of Previously Issued Financial Statements*

The previously issued financial statements of the Company as of and for the period ended June 30, 2021 and 2020 dated August 6, 2021 have been withdrawn and are replaced by these financial statements. The revision was necessary to amend the balances due to the recognition of the effect of lease modification in Notes 10, 11, 13, 15, 16.2, 18, 21, 23.3, 24, and 25.3 including its disclosures. In addition, the amounts of fair values of the loans and other borrowings were amended in Note 24, and management provided additional information on certain loans and other borrowings, which are secured by land and office condominium unit, in Notes 9, 12.2 and 19.8 and on the nature of other receivables in Note 6.

2.2 Adoption of Amended PFRS

(a) *Effective in 2021 that are Relevant to the Company*

The Company opted to early adopt the application of the amendments to PFRS 16, *Leases – COVID-19-Related Rent Concessions beyond 30 June 2021*, which is effective for annual periods beginning on or after April 1, 2021. The amendments extend for one year the use of practical expedient, not to assess whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modification and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Company's financial statements as the Company did not receive any rent concession from its lessors for 2021.

(b) *Effective Subsequent to 2021 but not Adopted Early*

There are pronouncements effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements.

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:
 - PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes from the example the illustration of the reimbursement of leasehold improvements by lessor in order to resolve any potential confusion regarding the treatment of lease incentives.
- (iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual terms of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instrument: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(i) Classification and Measurement of Financial Assets

The classification and measurement of financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Company's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, *Revenue from Contracts with Customers*, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses (ECL).

The Company's financial assets measured at amortized cost are presented in the statement of financial position as Cash, Trade and Other Receivables (excluding advances to suppliers and advances to employees), Guarantee Deposits, Rental and Other Deposits, and Bid and Construction Bonds (presented as part of Prepayments and Other Current Assets account in the statement of financial position).

For purposes of cash flows reporting and presentation, cash generally include cash on hand, demand deposits and savings deposits which are subject to insignificant risk of changes in value. Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

Interest income earned is recognized as part of Finance and Other Income account in the statement of comprehensive income.

(ii) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company recognizes lifetime ECL for trade and other receivables and contract assets. The ECL on these assets are estimated by applying the simplified approach using a provision matrix developed based on the Company's historical credit loss experience and credit information that are specific to debtors, adjusted for general economic conditions and an assessment of both current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. These assets are assessed for impairment on a collective basis based on shared credit risk characteristics [see Note 23.2(b)].

For bid and construction bonds, guaranty deposits, and rental and other deposits, the Company applies the general approach, which track the changes in credit risk at every reporting date [see Note 23.2(c)].

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – It is an estimate of likelihood of a counterparty defaulting at its financial obligation over a given time horizon, either over the next 12 months or the remaining lifetime of the obligation.
- *Loss given default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Company would expect to receive, including the realization of any collateral.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation.

The Company recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

(iii) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) *Financial Liabilities*

Financial liabilities, which include loans and other borrowings, trade and other payables (excluding tax-related payables) and deposit for future stock subscription are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Other Income (Charges) – net in the statement of comprehensive income.

Loans and other borrowings are raised for support of long-term funding of operations. These are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables (excluding tax-related payables) are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the first-in, first-out method. The cost of inventories includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Allowance is made for, where necessary, obsolete, slow-moving and defective inventories.

2.5 Prepayments and Other Assets

Prepayments and other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized at cost in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably. These are charged subsequently to profit or loss as utilized or reclassified to another asset account if capitalizable.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Company beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

2.6 Property and Equipment

Land is measured at cost. As no finite useful life for land can be determined, related carrying amount is not depreciated. The Company's all other property and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized only when it is probable that future economic benefits associated to the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Office condominium unit	25 years
Transportation equipment	5 years
Warehouse equipment	1-5 years
Demo units	1-5 years
Furniture and fixtures	1-3 years
Computer equipment	1-3 years

Leasehold improvements are amortized over the terms of the related leases or the useful lives of the improvements of two years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.11).

The residual values, estimated useful lives and method of depreciation of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

2.7 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Company can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Revenue and Expense Recognition

Revenue arises mainly from the sale, construction, and installation of medical equipment.

To determine whether to recognize revenue, the Company follows a five-step process:

- (1) identifying the contract with a customer;
- (2) identifying the performance obligation;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations; and,
- (5) recognizing revenue when/as performance obligations are satisfied.

For Step 1 to be achieved, the following five gating criteria must be present:

- (i) the parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- (ii) each party's rights regarding the goods or services to be transferred or performed can be identified;
- (iii) the payment terms for the goods or services to be transferred or performed can be identified;
- (iv) the contract has commercial substance (i.e., the risk, timing or amount of the future cash flows is expected to change as a result of the contract); and,
- (v) collection of the consideration in exchange of the goods and services is probable.

Revenue is recognized only when (or as) the Company satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- (i) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs;
- (ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- (iii) the Company's performance does not create an asset with an alternative use to the Company and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer.

If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of medical equipment* – Revenue is recognized when or as the Company transfers control of the assets at a point in time to the customer. Invoices for goods transferred are due upon receipt by the customer.
- (b) *Sale and installation of specialized medical equipment* – Revenue from construction of medical facilities and installation of medical equipment is recognized over time and is based on a percentage of completion method (POC).
- (c) *Distribution income* – Distribution income are derived from warehousing, invoicing and delivery service by the Company to its customers. Revenue from distribution is recognized over time when services are provided to the customers.

The Company presents a contract asset when it performs by transferring control of medical equipment or performing installation and construction services to a customer before the customer pays consideration or before payment is due. A contract asset is the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.

The Company presents a contract liability when a customer pays the consideration, or a Company has the right to an amount of consideration that is unconditional (i.e., a receivable), before the Company transfers medical equipment or performs installation service to the customer. A contract liability is the Company's obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer.

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and expenses such costs as incurred. The Company also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Company accounts for those costs in accordance with accounting policies related to those financial reporting standards.

The Company uses the practical expedient in PFRS 15 with respect to the non-disclosure of information about its remaining performance obligations when the performance obligation is part of a contract that has an original expected duration of one year or less.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset.

2.9 Leases

The Company accounts for its leases as follows:

(a) *Company as Lessee*

For any new contracts entered, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.11).

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been presented separately from all other assets while lease liabilities have been presented under Trade and Other Payables account, except for its non-current portion which is presented separately from all other liabilities.

(b) Company as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as part of Other Income (Charges) – net in profit or loss on a straight-line basis over the lease term.

2.10 Foreign Currency Transactions and Translation

The accounting records of the Company are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.11 Impairment of Non-financial Assets

The Company's property and equipment, right-of-use asset and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts, which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.12 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits, which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's post-employment defined benefit plan covers all regular full-time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries and wages under Operating Expenses in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity, such as the Social Security System (SSS). The Company has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) *Short-term Benefits*

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the annual reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under Trade and Other Payables account in the statements of financial position.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in Trade and Other Payables account in the statement of financial position at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(e) *Termination Benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever the employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

2.13 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.14 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Company and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; and, (b) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.15 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's BOD – its chief operating decision-maker. The Company's BOD is responsible for assessing performance of the operating segments.

In identifying its operating segment, management generally follows the Company's business line as disclosed in Note 4.

The measurement policies the Company uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.16 Deposit for Future Stock Subscription

Deposit for future stock subscription refers to the amount of money received from the stockholders as deposits on the subscription relative to the Company's application for the increase in authorized capital stock. Based on the requirements of the SEC, the Company recognizes a deposit for future stock subscription as part of equity if all of the criteria discussed below are met at the end of the reporting period:

- a. lack or insufficiency of authorized unissued shares of stock to cover for the deposit;
- b. approval by the BOD and stockholders for the increase in authorized capital stock to cover the shares corresponding to the amount of the deposit; and,
- c. application for the approval of the increase in capital stock has been presented for filing or has been filed with the SEC.

If any or all of the foregoing criteria is not met at the end of the reporting period, the deposit for future stock subscription is recognized as a liability.

2.17 Equity

Capital stock represents the nominal value of shares that have been issued.

Retained earnings represent all current and prior period results of operations as reported in the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

Revaluation reserves comprise remeasurements of retirement benefit obligation.

2.18 Basic and Diluted Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit (loss) by the weighted average number of common shares issued, adjusted for any stock dividends or stock splits, less any shares held in treasury during the reporting period.

The diluted EPS is also computed by dividing net profit (loss) by the weighted average number of common shares issued and outstanding during the reporting period. However, net profit (loss) attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of any potentially dilutive preferred shares, convertible loan and stock option.

Currently, the basic and diluted EPS are the same as there are no dilutive preferred shares, convertible loan and stock option (see Note 21).

2.19 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Company's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The lease term is reassessed if an option is actually exercised or not exercised or the Company becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Company.

The Company did not include the renewal period as part of the lease term for leases of office spaces because the terms are renewable upon the mutual agreement of the parties.

(b) Determination of Timing of Satisfaction of Performance Obligations

i. Sale and Installation of Specialized Medical Equipment

The Company determines that its revenue from sale and installation of specialized medical equipment shall be recognized over time. In making its judgment, the Company considers the timing of receipt and consumption of benefits provided by the Company to the customers. The Company provides the sale and installation services without the need of reperformance of other companies. This demonstrates that the customers simultaneously receive and consume the benefits of the Company's rendering of construction and installation service as it performs.

In determining the best method of measuring the progress of the Company's rendering of construction and installation services, management considers the input method under PFRS 15 because of the direct relationship between the Company's effort, in terms of materials or supplies used, incurred labor hours, and the transfer of service to the customer.

ii. Sale of Medical Equipment

The Company determines that its revenue from sale of medical equipment shall be recognized at a point in time when the control of the goods have passed to the customer, i.e., generally when the customer has acknowledged delivery of the goods.

(c) Determination of Transaction Price and Amounts Allocated to Performance Obligation

The transaction price for a contract is allocated amongst the material right and other performance obligations identified in the contract based on their stand-alone selling prices, which are all observable. The transaction price for a contract excludes any amounts collected on behalf of third parties [e.g., value-added taxes (VAT)].

The Company uses the practical expedient in PFRS 15 with respect to non-adjustment of the promised amount of consideration for the effects of significant financing component as the Company expects, at contract inception, that the period between when the Company transfers promised goods or services to the customer and payment due date is one year or less.

(d) Determination of ECL on Trade and Other Receivables, and Contract Assets

The Company uses the simplified approach to calculate ECL for trade and other receivables and contract assets, except those trade receivables from certain agencies of the Philippine National Government (NG). The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating).

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions).

With respect to trade receivables arising from contracts with NG, management determines the ECL based on the most recent external credit rating provided for the Philippines. Such rating is considered as the equivalent loss rate in determining the loss allowance related to trade receivables with NG agencies, as it reflects both historical and current considerations, and accounts for the potential impact of future events.

If the Company cannot immediately collect its receivables, management considers the expected manner of recovery to measure ECL. If the recovery strategies indicate that the outstanding balance of receivables can be fully collected, the ECL is limited to the effect of discounting the amount due over the period until cash is realized.

Details about the ECL on the Company's trade and other receivables, and contract assets are disclosed in Note 23.2(b).

(e) Evaluation of Business Model Applied in Managing Financial Instruments

The Company developed business models which reflect how it manages its portfolio of financial instruments. The Company's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Company) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Company evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Company (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Company's investment and trading strategies.

(f) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Company assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Company assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Company considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Company considers certain circumstances to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Company can explain the reasons for those sales and why those sales do not reflect a change in the Company's objective for the business model.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.7 and disclosures on relevant contingencies are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liability*

The Company measures its lease liability at present value of the lease payments that are not paid at the commencement date of the lease contract, for new lease contracts. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset, credit risk of the Company and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Recognition of Revenues Based on POC*

The Company recognizes its revenue from construction of medical facilities and installation of medical equipment based on the POC under the input method of the project whereby the performance obligations are satisfied over time (see Note 2.8). The Company's application of POC method is based on its efforts or inputs (i.e., actual costs incurred) to the satisfaction of a performance obligation relative to the total expected construction costs. Review of the benchmarks set by management necessary for the determination POC is done regularly. Actual data is being compared to the related benchmarks and critical judgment is exercised to assess the reliability of the POC procedures which are currently in place and make the necessary revisions in the light of current progress.

(c) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and contract assets is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 23.2.

(d) *Determination of Net Realizable Value of Inventories*

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. The Company's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories as presented in Note 7 is affected by price changes and action from competitors. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial reporting period.

(e) *Estimation of Useful Lives of Property and Equipment, and Right-of-use Asset*

The Company estimates the useful lives of property and equipment and right-of-use asset based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and right-of-use asset are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property and equipment and right-of-use asset are analyzed in Notes 9 and 10, respectively. Based on management's assessment as of June 30, 2021, and December 31, 2020, there is no change in estimated useful lives of those assets during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of June 30, 2021 and December 31, 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 18.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.11).

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss is required to be recognized on the Company's property and equipment, and right-of-use asset in 2021 and 2020.

(h) *Valuation of Post-employment Defined Benefit Obligation*

The determination of the Company's obligation or asset and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation or asset in the next reporting period.

The amounts of post-employment benefit obligation or asset and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 17.2.

4. OPERATING SEGMENT

The Company has only one reportable segment, i.e., its trading business, which caters to private and government customers.

Further, the Company has only one geographical segment as all of its operations are based in the Philippines.

5. CASH

Cash includes the following components as of:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Cash in banks	P 80,133,805	P 62,375,934
Cash on hand	<u>83,965</u>	<u>73,966</u>
	<u>P 80,217,770</u>	<u>P 62,449,900</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Interest income earned amounted to P38,554 and P47,348 in 2021 and 2020, respectively, and is presented as Interest income under Other Income (Charges) – net in the statements of comprehensive income (see Note 16).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Trade receivables	19.2, 19.3, 19.4	P1,693,841,460	P 1,467,421,090
Allowance for ECL	23.2(b)	(37,989,247)	(14,666,592)
		<u>1,655,852,213</u>	<u>1,452,754,498</u>
Non-trade receivables:			
Advances to suppliers		135,578,471	118,020,902
Advances to employees		1,386,871	874,564
Other receivables		<u>65,152,888</u>	<u>48,743,325</u>
		<u>202,118,230</u>	<u>167,638,791</u>
		<u>P1,857,970,443</u>	<u>P 1,620,393,289</u>

Advances to suppliers pertain to full or partial payment for goods and services before they are actually received by the Company.

Advances to employees consists of advances used in the daily operations of the Company. These advances are noninterest-bearing and expected to be liquidated within the next period.

Other receivables refer to advances to contractors for mobilization assistance to construction and special projects of certain medical equipments. These other receivables are short-term, demandable and noninterest-bearing.

A reconciliation of the allowance for impairment at the beginning and end of 2021 and 2020 is shown below.

	<u>Note</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Balance at beginning of period		P 14,666,592	P 14,298,367
ECL		<u>23,322,655</u>	<u>368,225</u>
Balance at end of period	23.2(b)	<u>P 37,989,247</u>	<u>P 14,666,592</u>

ECL is presented under Operating expenses in the 2021 statement of comprehensive income.

7. INVENTORIES

The breakdown of inventories, which are all stated at cost, are as follows:

	<u>Note</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Inventories		P 193,062,935	P 239,238,562
Allowance for inventory obsolescence		(8,511,533)	(8,511,533)
	15	<u>P 184,551,402</u>	<u>P 230,727,029</u>

Under the terms of agreements covering the liabilities under trust receipts, inventories with carrying amount of P135,900,094 and P196,553,702 as of June 30, 2021 and December 31, 2020 have been released to the Company in trust for by the banks. The Company is accountable to the banks for the trusted inventories and for proceeds of the sale of such inventories (see Note 12.1).

The Company assessed that there were no additional obsolete and impaired inventories in 2021 and 2020 aside from the previously set-up allowance in 2019.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Excess input tax	P 9,894,354	P 16,868,534
Bid and construction bonds	3,424,485	8,591,873
Creditable withholding tax	911,003	-
Deferred input tax	568,962	888,305
Rental and other deposits	489,493	509,492
Prepaid insurance	331,635	731,779
Other prepayments	<u>251,614</u>	<u>159,329</u>
	<u>P 15,871,546</u>	<u>P 27,749,312</u>

Bid bonds are issued by the Company to the project owner as part of supply bidding process to provide guarantee that the Company will undertake the contract under the terms at which they bid. Construction bonds, on the other hand, represent deposits required prior to the start of construction to cover all violations or non-compliance of any guidelines, requirements, or deviation from the approved plans and may be forfeited as a result of violation.

9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment at the beginning and end of June 30, 2021 and December 31, 2020 are shown below.

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Office condominium unit</u>	<u>Computer equipment</u>	<u>Furniture and fixtures</u>	<u>Transportation equipment</u>	<u>Warehouse equipment</u>	<u>Demo units</u>	<u>Total</u>
June 30, 2021									
Cost	P 121,350,000	P 7,110,159	P 13,907,143	P 10,348,375	P 2,345,357	P 8,355,463	P 1,523,773	P 25,769,276	P 190,709,546
Accumulated depreciation	<u>-</u>	<u>(7,110,159)</u>	<u>(4,153,268)</u>	<u>(5,187,904)</u>	<u>(2,345,357)</u>	<u>(7,706,398)</u>	<u>(1,523,773)</u>	<u>(21,892,277)</u>	<u>(49,919,136)</u>
Net carrying amount	<u>P 121,350,000</u>	<u>P -</u>	<u>P 9,753,875</u>	<u>P 5,160,471</u>	<u>P -</u>	<u>P 649,065</u>	<u>P -</u>	<u>P 3,876,999</u>	<u>P 140,790,410</u>
December 31, 2020									
Cost	P 121,350,000	P 7,110,159	P 39,986,548	P 9,402,792	P 2,345,357	P 8,355,463	P 1,523,773	P 28,596,521	P 218,670,613
Accumulated depreciation	<u>-</u>	<u>(7,110,159)</u>	<u>(7,613,534)</u>	<u>(4,753,412)</u>	<u>(2,345,357)</u>	<u>(7,427,202)</u>	<u>(1,523,773)</u>	<u>(21,921,248)</u>	<u>(52,694,685)</u>
Net carrying amount	<u>P 121,350,000</u>	<u>P -</u>	<u>P 32,373,014</u>	<u>P 4,649,380</u>	<u>P -</u>	<u>P 928,261</u>	<u>P -</u>	<u>P 6,675,273</u>	<u>P 165,975,928</u>
January 1, 2020									
Cost	P 1,350,000	P 7,110,159	P 39,986,548	P 4,113,478	P 2,345,357	P 8,355,463	P 1,523,773	P 30,832,619	P 95,617,397
Accumulated depreciation	<u>-</u>	<u>(7,110,159)</u>	<u>(6,014,072)</u>	<u>(3,865,327)</u>	<u>(2,336,813)</u>	<u>(6,868,809)</u>	<u>(1,447,540)</u>	<u>(18,380,918)</u>	<u>(46,023,638)</u>
Net carrying amount	<u>P 1,350,000</u>	<u>P -</u>	<u>P 33,972,476</u>	<u>P 248,151</u>	<u>P 8,544</u>	<u>P 1,486,654</u>	<u>P 76,233</u>	<u>P 12,451,701</u>	<u>P 49,593,759</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of June 30, 2021 and December 31, 2020 is shown below.

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Office condominium unit</u>	<u>Computer equipment</u>	<u>Furniture and fixtures</u>	<u>Transportation equipment</u>	<u>Warehouse equipment</u>	<u>Demo units</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation	P 121,350,000	P -	P 32,373,014	P 4,649,380	P -	P 928,261	P -	P 6,675,273	P 165,975,928
Additions	-	-	-	945,583	-	-	-	-	945,583
Cost of disposed asset	-	-	(26,079,405)	-	-	-	-	(2,827,245)	(28,906,650)
Accumulated depreciation of disposed asset	-	-	4,259,996	-	-	-	-	1,959,460	6,219,456
Depreciation charges for the period	-	-	(799,730)	(434,492)	-	(279,196)	-	(1,930,489)	(3,443,907)
Balance at June 30, 2021, net of accumulated depreciation	<u>P 121,350,000</u>	<u>P -</u>	<u>P 9,753,875</u>	<u>P 5,160,471</u>	<u>P -</u>	<u>P 649,065</u>	<u>P -</u>	<u>P 3,876,999</u>	<u>P 140,790,410</u>
Balance at January 1, 2020, net of accumulated depreciation	P 1,350,000	P -	P 33,972,476	P 248,151	P 8,544	P 1,486,654	P 76,233	P 12,451,701	P 49,593,759
Additions	120,000,000	-	-	5,289,314	-	-	-	2,200,000	127,489,314
Cost of disposed asset	-	-	-	-	-	-	-	(4,436,097)	(4,436,097)
Accumulated depreciation of disposed asset	-	-	-	-	-	-	-	2,279,400	2,279,400
Depreciation charges for the period	-	-	(1,599,462)	(888,085)	(8,544)	(558,393)	(76,233)	(5,819,731)	(8,950,448)
Balance at December 31, 2020, net of accumulated depreciation	<u>P 121,350,000</u>	<u>P -</u>	<u>P 32,373,014</u>	<u>P 4,649,380</u>	<u>P -</u>	<u>P 928,261</u>	<u>P -</u>	<u>P 6,675,273</u>	<u>P 165,975,928</u>

Depreciation expense amounting to P3,443,907 and P5,542,728 for 2021 and 2020, respectively, is presented as part of Operating Expenses in the statements of comprehensive income (see Note 15).

In 2021, the Company sold certain demo units and condominium unit to a related party under common ownership (see Note 19.5). The total carrying value of the property and equipment sold amounted to P22,687,194 while the gain on sale amounted to P28,894,879 (see Note 16.1). The Company also made several disposals of property and equipment in 2020. Proceeds from the disposals in 2020 amounted to P2,156,697, with no gain or loss from disposals recognized.

As of June 30, 2021 and December 31, 2020, the land and office condominium unit amounting to P121,350,000 and P9,753,874, and P121,350,000 and P10,032,017, respectively, and other properties owned by the stockholders were mortgaged in favor of Bank of Philippine Islands to secure credit facilities in the aggregate principal amount of P379,030,902 and P270,555,902, respectively (see Note 12).

As of June 30, 2021 and December 31, 2020, fully depreciated assets amounting to P38,267,583 and P35,490,652, respectively, are still being used in operations.

10. LEASES

The Company has lease for warehouse. Such lease is reflected on the statements of financial position as a right-of-use asset and a lease liability with the exception of short-term leases.

The lease generally imposes a restriction that, unless there is a contractual right for the Company to sublease the asset to another party, the right-of-use asset can only be used by the Company. The lease is either non-cancellable or may only be cancelled by incurring a substantive termination fee. The lease does not contain an option to purchase the underlying lease asset outright at the end of the lease, but contains a provision to extend the lease for a further term upon mutual agreement by both parties. The Company is prohibited from selling or pledging the underlying leased assets as security. For such lease, the Company must keep the property in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure the leased asset and incur maintenance fees on the office space in accordance with the lease contract.

The Company has only one right-of-use asset leased, which pertains to warehouse with floor area of 660 square meters. Lease contract provides a monthly rental payment of P182,474 for five years starting January 1, 2019 to December 31, 2023, renewable upon agreement by both parties.

On February 11, 2021, the Company and the lessor agreed to modify the terms of the lease agreement. The modification includes the retroactive revision of the lease term from April 16, 2020 to April 15, 2022. The modification also includes increase in monthly rental payment to P339,000 from P182,474. Total loss recognized as a result of the modification amounted to P1,166,873 (see Note 16.2).

10.1 *Right-of-use Asset*

The carrying amount of the Company's right-of-use asset and the movements during the period are shown below.

	<u>Note</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Cost		P 9,669,439	P 9,669,439
Effect of lease modification		(1,636,777)	-
		<u>8,032,662</u>	<u>9,669,439</u>
Accumulated amortization:			
Balance at beginning of period		3,867,776	1,933,888
Depreciation and amortization	15	2,008,166	1,933,888
Effect of lease modification		(1,022,876)	-
Balance at end of period		<u>4,853,066</u>	<u>3,867,776</u>
Carrying amount		<u>P 3,179,596</u>	<u>P 5,801,663</u>

10.2 Lease Liability

Lease liability is presented in the statements of financial position as follows:

	Note	June 30, 2021	December 31, 2020
Current	11	P 5,661,476	P 1,929,082
Non-current		<u>-</u>	<u>4,159,299</u>
		<u>P 5,661,476</u>	<u>P 6,088,381</u>

The lease liability is secured by the related underlying asset. The undiscounted maturity analysis of lease liability are as follows:

	<u>Within 6 months</u>	<u>6 months to 1 year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>Total</u>
June 30, 2021					
Lease payments	P 4,381,836	P 1,356,000	P -	P -	P 5,737,836
Finance charges	(<u>62,402</u>)	(<u>14,008</u>)	<u>-</u>	<u>-</u>	(<u>76,410</u>)
Net present value	<u>P 4,319,434</u>	<u>P 1,341,992</u>	<u>P -</u>	<u>P -</u>	<u>P 5,661,476</u>
December 31, 2020					
Lease payments	P 1,094,845	P 1,094,845	P 2,189,691	P 2,189,691	P 6,569,072
Finance charges	(<u>142,336</u>)	(<u>118,272</u>)	(<u>161,914</u>)	(<u>58,169</u>)	(<u>480,691</u>)
Net present value	<u>P 952,509</u>	<u>P 976,573</u>	<u>P 2,027,777</u>	<u>P 2,131,522</u>	<u>P 6,088,381</u>

10.3 Lease Payments not Recognized as Liabilities

The Company has elected not to recognize lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis. The total expenses recognized as of 2021 and 2020 amounted to P1,338,697 and P1,051,414, respectively, and is presented as Car leases under Operating Expenses in the statements of comprehensive income (see Note 15).

10.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P1,094,845 both in 2021 and 2020. Interest expense in relation to lease liability amounted to P114,970 and P188,696 in 2021 and 2020, respectively, and is presented as part of Finance and Other Charges under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.2).

11. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	June 30, 2021	December 31, 2020
Trade payables	19.6	P1,236,997,702	P 1,059,385,140
Dividends payable	20.2	255,000,000	-
Deferred output VAT		118,923,690	95,948,353
Due to a related party	19.1	18,017,433	-
Payable to government agencies		5,204,522	9,319,626
Lease liability	10.2	5,661,476	1,929,082
Accrued expenses		<u>1,633,155</u>	<u>3,209,000</u>
		<u>P1,641,437,978</u>	<u>P1,169,791,201</u>

Trade payables are noninterest-bearing and are due within the next accounting period.

Deferred output VAT pertains to the difference between the output tax recognized for transactions with the government under PFRS 15 revenue recognition and output tax recognized based on collection which are already reported and paid to the Bureau of Internal Revenue (BIR).

Payable to government agencies include withholding taxes, VAT, and the contributions to SSS, Home Development Mutual Fund (HDMF), and Philippine Health Insurance Corporation (PHIC).

Accrued expenses represent accrual for direct labor, gas, utilities and other expenses which are already incurred but not yet paid as of the end of the reporting period.

12. LOANS AND OTHER BORROWINGS

Loans and other borrowings are broken down as follows:

	Notes	June 30, 2021	December 31, 2020
Trust receipts	12.1	P 422,465,890	P 745,540,746
Notes payable	12.2	<u>697,072,547</u>	<u>465,149,783</u>
		<u>P1,119,538,437</u>	<u>P1,210,690,529</u>

Loans and other borrowings are presented in the statement of financial position as follows:

	June 30, 2021	December 31, 2020
Current	P1,040,791,001	P1,119,979,767
Non-current	<u>78,747,436</u>	<u>90,710,762</u>
	<u>P1,119,538,437</u>	<u>P1,210,690,529</u>

A reconciliation of the carrying amounts of loans and other borrowings at the beginning and end of 2021 and 2020 is shown below.

	Note	June 30, 2021	December 31, 2020
Balance at beginning of period		P1,210,690,529	P 404,440,226
Additions	13	752,225,013	1,181,609,532
Repayments	13	(843,377,105)	(375,359,229)
Balance at end of period		<u>P1,119,538,437</u>	<u>P1,210,690,529</u>

12.1 Liabilities under Letters of Credits and Trust Receipts

In 2021 and 2020, the Company availed of letter of credits and trust receipt lines with local banks to finance its purchases of inventories (see Note 7). These short-term trust receipts bear fixed interest rates ranging from 4.50% to 5.25% and 4.75% to 5.25% in 2021 and 2020, respectively, per annum with a maximum term of 180 days. The lines obtained from various banks are being utilized by the Company for the procurement of inventories both local and foreign. As of June 30, 2021 and December 31, 2020, the Company has an outstanding trust receipts payable with various banks broken down as follows:

	June 30, 2021	December 31, 2020
Philippine National Bank	P 146,267,679	P 270,426,165
Bank of the Philippine Islands	186,820,416	119,995,678
Rizal Commercial Banking Corporation	89,377,795	121,366,672
BDO Unibank	-	217,044,642
Security Bank	-	16,707,589
	<u>P 422,465,890</u>	<u>P 745,540,746</u>

12.2 Notes Payable

Notes payable represents unsecured term loans obtained from various local banks to finance its purchases of inventories and for additional working capital requirement of the Company. Notes payable bear an interest ranging from 4.50% to 5.25% per annum with terms ranging from six months to five years in 2021 and 2020. The Company's loan agreements do not contain covenant obligations. Notes payable are broken down as follows:

	June 30, 2021	December 31, 2020
Current	P 618,325,111	P 374,439,021
Non-current	<u>78,747,436</u>	<u>90,710,762</u>
	<u>P 697,072,547</u>	<u>P 465,149,783</u>

As of June 30, 2021 and December 31, 2020, notes payable amounting to P379,030,902 and P270,555,902, respectively, are secured by land and office condominium unit amounting to P121,350,000 and P9,753,874, and P121,350,000 and P10,032,017, respectively, and other properties owned by the stockholders (see Note 9).

12.3 Interest Expense and Bank Charges

Interest expense on loans and other borrowings amounting to P21,396,416 and P13,457,143 in 2021 and 2020, respectively, is presented as part of Finance and Other Charges under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.2). Bank charges paid and incurred for the availment and processing of loans and other borrowings amounted to P1,076,115 and P1,632,268 in 2021 and 2020, respectively, and is presented as part of Finance and Other Charges under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.2).

13. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Company's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Loans and Other Borrowings (Note 12)	Lease Liability (Note 10.2)	Dividends Payable (Note 11)	Total
Balance at January 1, 2021	P 1,210,690,529	P 6,088,381	P -	P 1,216,778,910
Non-cash financing activity:				
Interest expense amortization on lease liability	-	114,970	-	114,970
Declaration of dividends	-	-	255,000,000	255,000,000
Effect of lease modification	-	552,970	-	552,970
Cash flows from financing activities:				
Additions to loans and other borrowings	752,225,013	-	-	752,225,013
Repayments of loans and other borrowings	(843,377,105)	-	-	(843,377,105)
Repayments of lease liability	-	(1,094,845)	-	(1,094,845)
Balance at June 30, 2021	<u>P 1,119,538,437</u>	<u>P 5,661,476</u>	<u>P 255,000,000</u>	<u>P 1,380,199,913</u>
Balance at January 1, 2020	P 404,440,226	P 7,923,571	P 4,567,500	P 416,931,297
Non-cash financing activity –				
Interest expense amortization on lease liability	-	188,696	-	188,696
Cash flows from financing activities:				
Additions to loans and other borrowings	268,816,732	-	-	268,816,732
Repayments of loans and other borrowings	(145,858,289)	-	-	(145,858,289)
Distribution of dividends	-	-	(2,263,542)	(2,263,542)
Repayments of lease liability	-	(1,094,845)	-	(1,094,845)
Balance at June 30, 2020	<u>P 527,398,669</u>	<u>P 7,017,422</u>	<u>P 2,303,958</u>	<u>P 536,720,049</u>

14. REVENUES

14.1 Disaggregation of Contract Revenues

The Company derives revenue from the transfer of goods and services in the following primary geographical markets:

	<u>Sale of Medical Equipment (point in time)</u>	<u>Sale and Installation of Specialized Medical Equipment (over time)</u>	<u>Total</u>
<u>June 30, 2021</u>			
Primary geographical markets			
Luzon	P 553,826,170	P 132,470,439	P 686,296,609
Visayas	8,266,937	-	8,266,937
Mindanao	<u>120,526,446</u>	<u>-</u>	<u>120,526,446</u>
	<u>P 682,619,553</u>	<u>P 132,470,439</u>	<u>P 815,089,992</u>
<u>June 30, 2020</u>			
Primary geographical markets			
Luzon	P 19,166,351	P 49,229,164	P 68,395,515
Visayas	20,048,913	-	20,048,913
Mindanao	<u>125,257,367</u>	<u>-</u>	<u>125,257,367</u>
	<u>P 164,472,631</u>	<u>P 49,229,164</u>	<u>P 213,701,795</u>

The Company derives revenue from the transfer of goods and services in the following sectors:

	<u>Sale of Medical Equipment (point in time)</u>	<u>Sale and Installation of Specialized Medical Equipment (over time)</u>	<u>Total</u>
<u>June 30, 2021</u>			
Customers			
Private entities	P 181,778,066	P -	P 181,778,066
Government	<u>500,841,487</u>	<u>132,470,439</u>	<u>633,311,926</u>
	<u>P 682,619,553</u>	<u>P 132,470,439</u>	<u>P 815,089,992</u>
<u>June 30, 2020</u>			
Customers			
Private entities	P 10,850,688	P -	P 10,850,688
Government	<u>153,621,943</u>	<u>49,229,164</u>	<u>202,851,107</u>
	<u>P 164,472,631</u>	<u>P 49,229,164</u>	<u>P 213,701,795</u>

14.2 Contract Balances

The Company recognizes contract assets, due to timing difference of payment and satisfaction of performance obligation, to the extent of satisfied performance obligation on all open contracts as of the end of the reporting period.

Changes in the contract assets and contract liabilities are recognized by the Company when a right to receive payment is already established and upon performance of unsatisfied performance obligation, respectively.

The balance of contract assets and contract liabilities were as follows:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Contract assets	P1,109,954,462	P 961,587,571
Contract liabilities	69,338,306	3,605,729

Contract assets amounting to P1,109,954,462 and P961,587,571 in 2021 and 2020 pertains to revenue recognized based on POC that is not yet billed nor collected as of June 30, 2021 and December 31, 2020. This also pertains to contract accounts in relation to the sale and installation of specialized medical equipment to various government hospitals. As of June 30, 2021 and December 31, 2020, there were no impairment of contract assets.

A reconciliation of the movements of contract assets is shown below.

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Balance at beginning of period	P 961,587,571	P -
Increase due to revenue recognized that is not yet billed nor collected as of end of period	<u>148,366,891</u>	<u>961,587,571</u>
Balance at end of period	<u>P1,109,954,462</u>	<u>P 961,587,571</u>

A reconciliation of the movements of contract liabilities is shown below.

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Balance at beginning of period	P 3,605,729	P 95,754,822
Revenue recognized that was included in contract liabilities at the beginning of period	(3,605,729)	(95,754,822)
Increase due to cash received excluding amount recognized as revenue during the period	<u>69,338,306</u>	<u>3,605,729</u>
Balance at end of period	<u>P 69,338,306</u>	<u>P 3,605,729</u>

15. OPERATING EXPENSES BY NATURE

The details of the Company's operating expenses by nature are shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cost of inventories sold		P 637,574,765	P 185,723,964
ECL	6	23,322,655	-
Salaries and wages	17	12,439,317	13,291,815
Professional fees		7,194,659	5,434,143
Depreciation and amortization	9, 10	5,452,073	6,509,672
Documentary stamp		3,725,971	1,938,499
Freight and handling		2,299,530	896,838
Taxes and licenses		2,200,396	4,381,842
Penalties		1,894,911	776,150
Car leases	10.3	1,338,697	1,051,414
Insurance		1,240,066	474,913
Utilities and communication		746,157	657,744
SSS, HDMF and PHIC contribution		605,653	365,231
Repairs and maintenance		499,809	97,802
Training and seminars		440,720	444,256
Travel and transportation		440,532	412,857
Bidding		408,573	203,420
Meals		343,705	361,085
Association dues		335,201	367,046
Representation		259,622	554,720
Security and janitorial		250,870	244,895
Supplies		232,815	216,930
Accommodation		92,067	144,865
Miscellaneous		864,275	1,068,118
		<u>P 704,203,039</u>	<u>P 225,618,219</u>

The expenses are classified in the statements of comprehensive income as follows:

	<u>2021</u>	<u>2020</u>
Direct costs	P 637,574,765	P 185,723,964
Operating expenses	<u>66,628,274</u>	<u>39,894,255</u>
	<u>P 704,203,039</u>	<u>P 225,618,219</u>

The details of direct costs are shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Inventories at beginning of period	7	P 230,727,029	P 40,714,373
Net purchases during the period	19.6	<u>591,399,138</u>	<u>186,071,212</u>
		822,126,167	226,785,585
Inventories at end of period	7	(184,551,402)	(41,061,621)
		<u>P 637,574,765</u>	<u>P 185,723,964</u>

16. OTHER INCOME (CHARGES) – Net

16.1 Finance and Other Income

Finance and other income includes the following:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Gain on sale of property and equipment	9	P 28,894,879	P -
Distribution income	19.2	13,670,309	13,974,719
Rent income	19.4	783,696	820,188
Interest income	5	<u>38,554</u>	<u>47,348</u>
		<u>P 43,387,438</u>	<u>P 14,842,255</u>

16.2 Finance and Other Charges

The breakdown of this account follows:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Interest expense on borrowings	12.3	P 21,396,416	P 13,457,143
Loss on lease modification	10	1,166,873	-
Bank charges	12.3	1,076,115	1,632,268
Interest expense on lease liability	10.4	114,970	188,696
Foreign exchanges loss		<u>93,392</u>	<u>262</u>
		<u>P 23,847,766</u>	<u>P 15,278,369</u>

17. EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Short-term employee benefits		P 11,165,019	P 12,745,525
Post-employment defined benefit	17.2(b)	<u>1,274,298</u>	<u>546,290</u>
	15	<u>P 12,439,317</u>	<u>P 13,291,815</u>

17.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Company's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service. The post-employment plan covers all regular full-time employees.

(b) Explanation of Amounts Presented in the Financial Statements

All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2020. For 2021, amounts presented was based on projection using the same assumptions from the 2020 valuation report, except for the discount rate date which was based on June 30, 2021 BVAL rate. The amounts of post-employment defined benefit obligation recognized in the statements of financial position amounted to P6,948,186 and P4,343,118 as of June 30, 2021 and December 31, 2020, respectively.

The movements in the present value of the retirement benefit obligation are as follows:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Balance at beginning of period	P 4,343,118	P 3,372,686
Current service cost	1,102,311	371,248
Interest expense	171,987	175,042
Actuarial losses arising from:		
Changes in financial assumptions	1,294,743	277,662
Experience adjustments	<u>36,027</u>	<u>146,480</u>
Balance at end of period	<u>P 6,948,186</u>	<u>P 4,343,118</u>

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2021</u>	<u>2020</u>
Reported in profit or loss:		
Current service cost	P 1,102,311	P 371,248
Interest expense	<u>171,987</u>	<u>175,042</u>
	<u>P 1,274,298</u>	<u>P 546,290</u>
Reported in other comprehensive income:		
Actuarial losses arising from:		
Changes in financial assumptions	P 1,294,743	P 277,662
Experience adjustments	<u>36,027</u>	<u>146,480</u>
	<u>P 1,330,770</u>	<u>P 424,142</u>

Current service cost and interest expense is presented as part of Salaries and wages under Operating Expenses in the statements of comprehensive income (see Note 15).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	June 30, 2021	December 31, 2020
Discount rates	4.97%	3.96%
Expected rate of salary increases	3.00%	3.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 20.7 years and 21.8 years in 2021 and 2020, respectively.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bonds with terms to maturity approximating to the terms of the post-employment benefit obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as interest rate risk, longevity risk and salary risk.

(i) *Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of June 30, 2021 and December 31, 2020:

	<u>Impact on Retirement Benefit Obligation</u>			
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>	
<u>June 30, 2021</u>				
Discount rate	+/- 1.00%	(P 1,055,430)	P 1,286,073	
Salary growth rate	+/- 1.00%	1,187,321	(992,379)	
<u>December 31, 2020</u>				
Discount rate	+/- 1.00%	(P 229,030)	P 261,533	
Salary growth rate	+/- 1.00%	261,427	(233,147)	

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous periods.

(ii) *Funding Arrangements and Expected Contributions*

As of June 30, 2021, the plan is underfunded by P6,948,186 based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	<u>June 30, 2021</u>	<u>December 31, 2020</u>
More than one year to five years	P 4,037,810	P 3,238,337
More than five years	<u>4,736,481</u>	<u>1,620,471</u>
	<u>P 8,774,291</u>	<u>P 4,858,808</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 6.75 and 5.6 years for 2021 and 2020, respectively.

18. TAXES

On March 26, 2021, Republic Act No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, amending certain provisions of the National Internal Revenue Code of 1997, as amended, was signed into law with veto on certain provisions. The CREATE Act has several provisions with retroactive effect beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to the Company:

- regular corporate income tax (RCIT) rate is decreased from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate is decreased from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Act was signed after December 31, 2020, the Company used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements and will be taken up prospectively in the 2021 financial statements. As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense as presented in the 2020 annual income tax return of the Company was lower by P3.8 million than the amount presented in the 2020 financial statements which was charged to 2021 profit or loss.

In addition, the recognized net deferred tax assets as of December 31, 2020 were remeasured to 25% in the current period. This resulted in a decline in the recognized net deferred tax asset in 2020 by P1.6 million and was charged to 2021 profit or loss.

The components of tax expense (income) relating to profit or loss and other comprehensive income follow:

	<u>2021</u>	<u>2020</u>
<i>Reported in profit or loss</i>		
Current tax expense:		
RCIT at 25%	P 38,456,061	P -
Adjustment for prior period taxes	(3,788,826)	-
Final tax at 20% and 15%	7,711	9,470
MCIT at 2%	<u>-</u>	<u>855,455</u>
	<u>34,674,946</u>	<u>864,925</u>
Deferred tax income relating to origination and reversal of temporary differences	(5,857,116)	(182,203)
Change in tax rates	<u>1,563,252</u>	<u>-</u>
	<u>(4,293,864)</u>	<u>(182,203)</u>
	<u>P 30,381,082</u>	<u>P 682,722</u>

	<u>2021</u>	<u>2020</u>
<i>Reported in other comprehensive income (loss)</i>		
Deferred tax income relating to origination and reversal of temporary differences	(P 399,231)	(P 127,243)
Change in tax rates	<u>66,538</u>	<u>-</u>
	<u>(P 332,693)</u>	<u>(P 127,243)</u>

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	<u>2021</u>	<u>2020</u>
Tax on pretax profit (loss) at 25% and 30%	P 32,606,656	(P 3,705,761)
Change in tax rates	(2,225,576)	-
Tax effect of non-deductible expenses	1,930	4,688
Adjustment for income subjected to lower tax rates	(1,928)	<u>4,383,795</u>
Tax expense	<u>P 30,381,082</u>	<u>P 682,722</u>

The deferred tax assets relate to the following:

	<u>Statements of</u>		<u>Statements of Comprehensive Income</u>			
	<u>Financial Position</u>		<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>June 30,</u>	<u>December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
	<u>2021</u>	<u>2020</u>				
Deferred tax assets:						
Allowance for ECL	P 9,497,312	P 4,399,978	P 5,097,334	P -	P -	P -
Provision for inventory obsolescence	2,127,883	2,553,460	(425,577)	-	-	-
Post-employment benefit obligation	1,737,047	1,302,935	101,419	163,887	332,693	127,243
Right-of-use assets and lease liabilities - net	620,469	86,015	534,454	18,237	-	-
Unrealized foreign exchange loss - net	<u>23,348</u>	<u>1,037,114</u>	<u>(1,013,766)</u>	<u>79</u>	<u>-</u>	<u>-</u>
Deferred tax assets	<u>P 14,006,059</u>	<u>P 9,379,502</u>				
Deferred tax income			<u>P 4,293,864</u>	<u>P 182,203</u>	<u>P 332,693</u>	<u>P 127,243</u>

In 2021 and 2020, the Company is subject to the MCIT, which is computed at 1% and 2%, respectively, of gross income net of allowable deductions as defined under the tax regulations or to RCIT, whichever is higher.

In 2021 and 2020, the Company claimed itemized deductions in computing for its income tax due.

19. RELATED PARTY TRANSACTIONS

The Company's related parties include its stockholders, related parties under common ownership and key management personnel as described below.

The summary of the Company's transactions and outstanding balances with its related parties follows:

		<u>Amount of Transactions</u>		<u>Outstanding Balances</u>	
	<u>Notes</u>	<u>2021</u>	<u>2020</u>	<u>June 30, 2021</u>	<u>December 31, 2020</u>
Related Party under Common Ownership:					
Distribution income	19.2	P 7,745,880	P 9,035,217	P 7,745,880	P -
Sale of goods	19.3	2,978,224	3,077,963	2,978,224	-
Rent income	19.4	783,696	820,188	783,696	-
Sale of property and equipment	19.5	51,582,073	-	-	-
Advances obtained – net	19.1	(18,017,433)	-	(18,017,433)	-
Purchases	19.6	(4,724,533)	-	(4,724,533)	-
Stockholders –					
Dividends declared	20.2	255,000,000	-	255,000,000	-
Key Management Personnel –					
Compensation	19.7	3,177,078	4,163,222	-	-

The balances from these transactions are generally settled in cash on demand, unsecured and noninterest-bearing. Due to the short duration of the payables and receivables to related parties, management considers their carrying amounts to be a reasonable approximation of their fair values. Further, the management believes that such balances of receivables, if there is any, can be collected; hence, not impaired.

19.1 Advances to and from Related Party

The Company transferred funds to and from Asya Medika Inc. (AMI), a related party under common ownership, for working capital purposes. These advances are noninterest-bearing, unsecured and have no definite repayment terms. The gross outstanding balances of advances to a related party as of June 30, 2021 amounted to P50,282,567. In 2021, the Company also borrowed funds from AMI amounting to P68,300,000 as the gross outstanding balances of advances from a related party. The borrowed funds remained outstanding as of June 30, 2021 and is presented net of advances to a related party as part of Due to a related party under Trade and Other Payables account in the statements of financial position (see Note 11). There were no similar transactions and outstanding balances as of December 31, 2020.

19.2 Distribution Income

The Company has an agreement with AMI for the warehousing and logistics services. In exchange for warehousing and logistics services, AMI is required to pay distribution fee equivalent to 5% of net sales. Distribution fee billed from AMI were P7,745,880 and P9,035,217 in 2021 and 2020, respectively.

The distribution income is presented as part of Finance and Other Income under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.1). The Company has outstanding receivable arising from this transaction to AMI amounting to P7,745,880 as of June 30, 2021 (nil as of December 31, 2020) and is presented as part of Trade receivables under Trade and Other Receivables in the 2021 statement of financial position (see Note 6).

19.3 Sale of Medical Equipment

The Company has sold various medical equipment to AMI amounting to P2,978,224 and P3,077,963 in 2021 and 2020, respectively. The sales were made at a 5% mark-up on cost. These are presented as part of Revenues in the statements of comprehensive income. The Company has outstanding receivable from AMI related to these sales of medical equipment amounting to P2,978,224 as of June 30, 2021 (nil as of December 31, 2020) and is presented as part of Trade receivables under Trade and Other Receivables in the 2021 statement of financial position (see Note 6).

19.4 Rent Income

The Company has a lease agreement with AMI for the rental of warehouse, and of which total rent income amounting to P783,696 and P820,188 were recognized in 2021 and 2020, respectively. The rent income is presented as part of Finance and Other Income under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.1). The Company has outstanding receivable to AMI relating to these rentals amounting to P783,696 as of June 30, 2021 (nil as of December 31, 2020) and is presented as part of Trade receivables under Trade and Other Receivables in the statements of financial position (see Note 6). There was no similar outstanding receivable as of December 31, 2020.

19.5 Sale of Property and Equipment

The Company sold certain demo units and condo unit to AMI with a total carrying value of P22,687,194. Gain on sale from amounted to P28,894,879 and is presented as part of Finance and Other Income under Other Income (Charges) – net in the statement of comprehensive income (see Note 16.1). No outstanding receivables from AMI as of June 30, 2021, and no similar transaction in 2020.

19.6 Purchases

The Company purchases various merchandise items from AMI with similar transaction price and terms under exact business circumstance with third parties. These transactions are presented as part of net purchases during the period (see Note 15). The outstanding payables from these transactions as of June 30, 2021 (nil as of December 31, 2020) are presented as part of Trade Payables under Trade and Other Payables account in the 2021 statement of financial position (see Note 11).

19.7 Key Management Personnel Compensation

The compensation of key management personnel, which is presented as part of Salaries and Wages under operating expenses in the statement of comprehensive income (see Note 15), are broken down as follows:

	<u>2021</u>	<u>2020</u>
Salaries and wages	P 2,932,687	P 3,842,974
13 th month pay	<u>244,391</u>	<u>320,248</u>
	<u>P 3,177,078</u>	<u>P 4,163,222</u>

There is no related outstanding payable relating to key management personnel compensation as of June 30, 2021 and December 31, 2020.

19.8 Others

As of June 30, 2021 and December 31, 2020, notes payable amounting to P379,030,902 and P270,555,902, respectively, are secured by land and office condominium unit amounting to P121,350,000 and P9,753,874, and P121,350,000 and P10,032,017, respectively, and other properties owned by the stockholders (see Note 9).

20. EQUITY

20.1 Capital Stock

The total authorized capital stock of the Company as of June 30, 2021 and December 31, 2020 amounted to P400,000,000 divided into 400,000 common shares with par value of P1,000 per share. As of June 30, 2021 and December 31, 2020, the total authorized capital stock of the Company was fully subscribed and paid.

In 2021, the Company's BOD approved the increase in authorized capital stock from P400,000,000 divided into 400,000 common shares with par value of P1,000 per share to P1,000,000,000 divided into 4,000,000,000 common shares with par value of P0.25 per share. In consideration of the increase in the Company's authorized capital stock, the Company received P37,500,000 of additional investment from its stockholders.

As of June 30, 2021, the P37,500,000 additional investment is presented as Deposit for Future Stock Subscription account under Non-current Liabilities since the Company has not yet complied with all the SEC requirements for it to recognize the deposit for future stock subscription as part of Equity. The Company's application for the increase in authorized capital stock was submitted to SEC on July 14, 2021 and has been approved and certified by SEC on July 27, 2021.

As of June 30, 2021 and December 31, 2020, the Company has two stockholders owning 100 or more shares of the Company's capital stock.

20.2 Retained Earnings

On June 23, 2021, the Company declared cash dividend amounting to P255,000,000 or P637.50 per share to stockholders from the unappropriated retained earnings which remained outstanding as of June 30, 2021 (see Note 11). There was no similar transaction in 2020.

21. EARNINGS (LOSS) PER SHARE

Earnings per share were computed as follows:

	<u>2021</u>	<u>2020</u>
Net profit (loss) for the period	P100,045,543	(P 13,035,260)
Divided by the weighted average number of outstanding common shares*	<u>400,000</u>	<u>400,000</u>
Basic and diluted earnings (loss) per share	<u>P 250.11</u>	(P <u>32.59</u>)

**The Company has no potential dilutive common shares as of June 30, 2021 and 2020.*

22. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Company:

22.1 Unused Credit Line

The Company has unused credit line amounting to P2.0 billion and P1.8 billion as of June 30, 2021 and December 31, 2020, respectively.

22.2 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the financial statement. As of June 30, 2021 and December 31, 2020, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the financial statements.

23. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's financial assets and liabilities by category are summarized in Note 24. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management, in close cooperation with the BOD, focuses on actively securing the Company's short-to-medium term cash flows by minimizing the exposure to financial markets.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Company is exposed to are described below and in the succeeding paragraphs.

23.1 *Market Risk*

The Company is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk, which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Company's overseas purchases, which are primarily denominated in U.S. dollars (USD). The liability covering the inventory purchases is covered by LCs, which are subsequently closed to Philippine peso TRs. The Company also holds U.S. dollar-denominated cash in banks.

To mitigate the Company's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated cash in banks, translated into Philippine pesos at the closing rate, amounted to P9,402,120 and P13,261,064 as of June 30, 2021 and December 31, 2020, respectively. However, the management believes the related foreign currency risk exposure is not significant.

(b) Interest Rate Risk

As of June 30, 2021 and December 31, 2020, the Company is exposed to changes in market interest rates through its cash in banks, which are subject to variable interest rates. However, management believes that the related interest rate risk exposure is not significant. All other financial assets and financial liabilities are either noninterest-bearing or subject to fixed interest rates.

23.2 *Credit Risk*

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Company. The Company is exposed to this risk for various financial instruments arising from selling goods and services to customers, and placing deposits with banks.

The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements, as summarized below.

	Notes	June 30, 2021	December 31, 2020
Cash	5	P 80,217,770	P 62,449,900
Trade and other receivables – net	6	1,721,005,101	1,501,497,823
Bid and construction bonds	8	3,424,485	8,591,873
Guarantee deposits		2,366,122	2,016,822
Rental and other deposits	8	489,493	509,492
		<u>P1,807,502,971</u>	<u>P1,575,065,910</u>

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash in banks as described below.

(a) *Cash in Banks*

The credit risk for cash is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(b) *Trade and Other Receivables*

The Company applies simplified approach in measuring ECL which uses a lifetime loss allowance for all Trade and Other Receivables (excluding advances to suppliers and advances to employees). The Company's trade and other receivables are assessed individually or on a per customer basis.

To measure the ECL, trade receivables have been grouped based on credit risk characteristics and the days past due (age buckets).

The expected loss rates for trade and other receivables are based on the payment profiles of sales over a period of 5 years before June 30, 2021 and December 31, 2020, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as of June 30, 2021 and December 31, 2020 was determined based on days past due for trade and other receivables (excluding advances to suppliers and advances to employees, which are considered non-financial assets, and receivable from NG, which are separately assessed below) are as follows:

June 30, 2021

<u>Days past due</u>	<u>Expected loss rate</u>		<u>Gross carrying amount at June 30, 2021</u>		<u>Loss allowance</u>
0 – 120	0.00%	P	471,174,597	P	-
121 – 180	0.00%		2,418,279		-
181 – 365	0.00%		33,674,928		-
Above 365	75.35%		<u>50,415,969</u>		<u>37,989,247</u>
		P	<u>557,683,773</u>	P	<u>37,989,247</u>

December 31, 2020

<u>Days past due</u>	<u>Expected loss rate</u>		<u>Gross carrying amount at December 31, 2020</u>		<u>Loss allowance</u>
0 – 120	0.00%	P	150,884,948	P	-
121 – 180	0.00%		8,439,601		-
181 – 365	0.00%		21,235,958		-
Above 365	50.15%		<u>29,246,730</u>		<u>14,666,592</u>
		P	<u>209,807,237</u>	P	<u>14,666,592</u>

With respect to trade receivables from NG amounting to P1,201,310,575 and P1,306,357,178 as of June 30, 2021 and December 31, 2020, respectively, the Company assessed the ECL based on the latest external credit rating provided by Standard and Poor's (S&P) for the Philippines which evaluates the current and historical information and assesses the potential impact foreseeable future events as basis for the credit ratings. Management used S&P's rating of "BBB", which has an equivalent loss rate of 0.11% and 0.21% as at June 30, 2021 and December 31, 2020, respectively. Such rating resulted to a negligible loss allowance as of June 30, 2021 and December 31, 2020, and therefore no longer recognized.

(c) *Bid and Construction Bonds, Guarantee Deposits, and Rental and Other Deposits*

The credit risk for bid and construction bonds, guarantee deposits, and rental and other deposits are considered negligible due to low credit risk and insignificant value of the balance. Guaranty deposits represents deposit arising from car lease contract that will be refunded at the end of the lease term.

23.3 Liquidity Risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested in time deposits and short-term marketable securities.

As of June 30, 2021 and December 31, 2020, the Company's financial liabilities (except lease liabilities – see Note 10.2) have contractual maturities, which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	More than 5 Years
<u>June 30, 2021</u>				
Loans and other borrowings	P 289,349,153	P 754,218,219	P 86,982,043	P 39,691,591
Trade and other payables	-	1,635,776,502	-	-
	<u>P 289,349,153</u>	<u>P 2,389,994,721</u>	<u>P 86,982,043</u>	<u>P 39,691,591</u>
<u>December 31, 2020</u>				
Loans and other borrowings	P 196,626	P 1,119,783,141	P 65,688,430	P 40,893,090
Trade and other payables	-	1,167,862,119	-	-
	<u>P 196,626</u>	<u>P 2,287,645,260</u>	<u>P 65,688,430</u>	<u>P 40,893,090</u>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

24. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		June 30, 2021		December 31, 2020	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial assets:					
Cash	5	P 80,217,770	P 80,217,770	P 62,449,900	P 62,449,900
Trade and other receivables – net	6	1,721,005,101	1,721,005,101	1,501,497,823	1,501,497,823
Bid and construction bonds	8	3,424,485	3,424,485	8,591,873	8,591,873
Guarantee deposits		2,366,122	2,366,122	2,016,822	2,016,822
Rental and other deposits	8	<u>489,493</u>	<u>489,493</u>	<u>509,492</u>	<u>509,492</u>
		<u>P 1,807,502,971</u>	<u>P 1,807,502,971</u>	<u>P 1,575,065,910</u>	<u>P 1,575,065,910</u>
Financial liabilities:					
Trade and other payables	11	P 1,635,776,502	P 1,635,776,502	P 1,167,862,119	P 1,167,862,119
Loans and other borrowings	12	1,119,538,437	1,119,538,437	1,210,690,529	1,210,690,529
Lease liability	10.2	<u>5,661,476</u>	<u>5,661,476</u>	<u>6,088,381</u>	<u>6,088,381</u>
		<u>P 2,760,976,415</u>	<u>P 2,760,976,415</u>	<u>P 2,383,641,029</u>	<u>P 2,383,641,029</u>

See Note 2.3 for the description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 23.

25. FAIR VALUE MEASUREMENT AND DISCLOSURES

25.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets, which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

25.2 Financial Instruments Measurement at Fair Value

The Company has no financial assets and financial liabilities measured at fair value as of June 30, 2021 and December 31, 2020.

25.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities, which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
June 30, 2021:				
Financial assets:				
Cash	P 80,217,770	P -	P -	P 80,217,770
Trade and other receivables – net	-	-	1,721,005,101	1,721,005,101
Bid and construction bonds	-	-	3,424,485	3,424,485
Guarantee deposits	-	-	2,366,122	2,366,122
Rental and other deposits	-	-	489,493	489,493
	<u>P 80,217,770</u>	<u>P -</u>	<u>P 1,727,285,201</u>	<u>P 1,807,502,971</u>
Financial liabilities:				
Trade and other payables	P -	P -	P 1,635,776,502	P 1,635,776,502
Loans and other borrowings	-	-	1,119,538,437	1,119,538,437
Lease liability	-	-	5,661,476	5,661,476
	<u>P -</u>	<u>P -</u>	<u>P 2,760,976,415</u>	<u>P 2,760,976,415</u>
December 31, 2020:				
Financial assets:				
Cash	P 62,449,900	P -	P -	P 62,449,900
Trade and other receivables – net	-	-	1,501,497,823	1,501,497,823
Bid and construction bonds	-	-	8,591,873	8,591,873
Guarantee deposits	-	-	2,016,822	2,016,822
Rental and other deposits	-	-	509,492	509,492
	<u>P 62,449,900</u>	<u>P -</u>	<u>P 1,512,616,010</u>	<u>P 1,575,065,910</u>
Financial liabilities:				
Trade and other payables	P -	P -	P 1,167,862,119	P 1,167,862,119
Loans and other borrowings	-	-	1,210,690,529	1,210,690,529
Lease liability	-	-	6,088,381	6,088,381
	<u>P -</u>	<u>P -</u>	<u>P 2,383,641,029</u>	<u>P 2,383,641,029</u>

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

26. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. The Company also sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

27. IMPACT OF COVID-19 PANDEMIC ON THE COMPANY'S BUSINESS

On March 11, 2020, the World Health Organization has declared COVID-19 outbreak to be a global pandemic. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of public health standards and community quarantine in order to contain the spread of COVID-19.

The following are the impact of the COVID-19 pandemic to the Company's business:

- Urgent demand for computerized tomography (CT) scan, mobile x-rays and dialysis machines as these devices help detect and treat COVID-19 virus and other COVID-19-related complications.
- Price increase and shortage of stocks for COVID-19-related diagnostic equipment such as mobile x-rays, among others.
- Increase in shipment charges and fluctuation in delivery schedule depending on varying countries' protocols.
- Delays in collection resulting from delays in project implementation due to several factors including but not limited to the following:
 - strict Inter-agency Task Force (IATF) guidelines;
 - rapid changes in COVID-19-related protocols across cities;
 - scarcity of materials for completion on infrastructure projects; and,
 - irregular availability of manpower due to skeletal workforce operations in hospitals, local government units, partner suppliers, as well as in the Bureau of Customs, among others.
- Delayed payments from customers vis-à-vis cash-on-delivery payment terms for most principals and third party suppliers in order to preserve cash.
- Decline in sales, marketing and other operating expenses due to the implementation of flexible working arrangement during the Enhanced Community Quarantine (ECQ) period, work-from-home option for office-based personnel, skeletal workforce for supply chain, and field visits on as-needed basis for sales and marketing.

In response to this matter, the Company has taken the following actions:

- Continuous coordination with principal partners and suppliers in order to support the government's COVID-19 response via the urgent distribution of related machines nationwide.
- Negotiations and volume commitment with principals to secure stocks allocation.
- Collection drive as primary focus of total Company efforts, with sales only secondary.
- Continuous recruitment and hiring of field personnel to meet growing demands and to speed up collection efforts.
- Cost-cutting measures to preserve cash including priority payments of high interest debts, negotiation of payment terms with suppliers, consolidation of deliveries to reduce shipping charges, among others.
- Provision of hazard pay to employees who needed to go to COVID-hospitals. COVID-19 preventive supplies such as personal protective equipment, face masks, face shields, and alcohols were distributed.
- Utilization of Sales Force Efficiency Software Program and other web-based medium to enhance internal communication and coordination, and to conduct virtual product training.

As a result of the Company's assessment of COVID-19 impact on its assets and liabilities, management believes that the Company would continue to report positive result of operations and would remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern in relation to the pandemic.

The scale and duration of these developments remain uncertain as of the date of issuance of the financial statements. Considering the evolving nature of the pandemic, the Company continues to monitor the risks and on-going COVID-19 impact to its business.

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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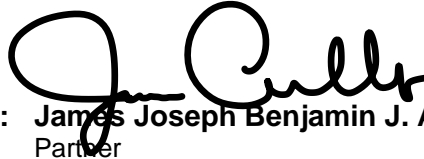
The Board of Directors
Medilines Distributors Incorporated
No. 7 Pioneer St., corner Sheridan St.
Barangay Highway Hills, Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Medilines Distributors Incorporated (the Company) for the six months ended June 30, 2021 and 2020, on which we have rendered our report dated October 5, 2021. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Company's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We draw attention to Note 2 to the financial statements which discusses that the financial statements have been revised and reissued to amend and to include additional information on the Company's certain transactions during the periods presented.

This report supersedes our audit report on the previously issued financial statement dated August 6, 2021.

PUNONGBAYAN & ARAULLO



By: **James Joseph Benjamin J. Araullo**
Partner

CPA Reg. No. 0111202

TIN 233-090-319

PTR No. 8533220, January 4, 2021, Makati City

SEC Group A Accreditation

Partner - No. 1762-A (until Aug. 5, 2022)

Firm - No. 0002 (until Dec. 31, 2024)

BIR AN 08-002511-039-2018 (until Nov. 26, 2021)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

October 5, 2021

MEDILINES DISTRIBUTORS INCORPORATED

List of Supplementary Information

June 30, 2021

Schedule	Content	Page No.
Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68		
A	Financial Assets	N/A
B	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	1
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	N/A
D	Long-Term Debt	2
E	Indebtedness to Related Parties	3
F	Guarantees of Securities of Other Issuers	N/A
G	Capital Stock	4
Others Required Information		
	Reconciliation of Retained Earnings Available for Dividend Declaration	5
	Map Showing the Relationships Between and Among Companies in the Group	N/A

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
JUNE 30, 2021
(Amounts in Philippine Pesos)

Name and Designation of Debtor	Balance at Beginning of the Period	Additions	Deductions			Ending Balance		Balance at End of the Period
		Amounts Granted	Amounts Collected	Amounts Written-off	Amounts Assigned	Current	Not Current	
<i>Asya Medika, Inc.</i>	P -	P 11,507,800	P -	P -	P -	P 11,507,800	P -	P 11,507,800
Trade receivables	874,564	512,307	-	-	-	1,386,871	-	1,386,871
<i>Advances to employees</i>								
TOTAL	P 874,564	P 12,020,107	P -	P -	P -	P 12,894,671	P -	P 12,894,671

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE D - LONG TERM DEBT
JUNE 30, 2021
(Amounts in Philippine Pesos)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet
Long-term loans and other borrowings	P <u>1,119,538,437</u>	P <u>1,040,791,001</u>	P <u>78,747,436</u>

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
 JUNE 30, 2021
(Amounts in Philippine Pesos)

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
<i>Asya Medika, Inc.</i>		
Trade payables	P -	P 4,724,533
Advances from related party – net	-	18,017,433
	P -	P 22,741,966

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE G - CAPITAL STOCK
JUNE 30, 2021

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers and Employees	Others
Common shares – P1,000 par value	<u>400,000</u>	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>399,993</u>	<u>7</u>

MEDILINES DISTRIBUTORS INCORPORATED
No. 7 Pioneer St., corner Sheridan St.
Barangay Highway Hills, Mandaluyong City
Reconciliation of Retained Earnings Available for Dividend Declaration
For the period ended June 30, 2021

Unappropriated Retained Earnings Available at Beginning of Period	P	256,810,119
Prior Year's Outstanding Reconciling Items		
Deferred tax asset – gross	(9,379,502)
Net Profit per Audited Financial Statements	P	100,045,543
Less: Non-actual/Unrealized Income		
Unrealized foreign exchange loss - net		1,013,766
Deferred tax income related to deferred tax assets recognized in profit or loss during the period	(<u>5,307,630</u>)	95,751,679
Dividend Declarations During the Period	(<u>255,000,000</u>)	
Unappropriated Retained Earnings Available for Dividend Declaration at End of Period	<u>P</u>	<u>78,802,794</u>

Report of Independent Auditors on Components of Financial Soundness Indicators

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The Board of Directors

Medilines Distributors Incorporated

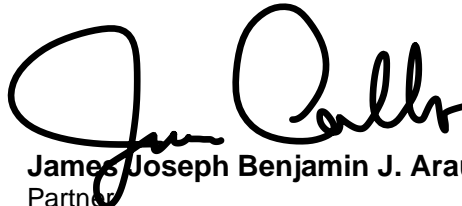
No. 7 Pioneer St., corner Sheridan St.
Barangay Highway Hills, Mandaluyong City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Medilines Distributors Incorporated (the Company) for the six months ended June 30, 2021 and 2020, on which we have rendered our report dated October 5, 2021. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as of June 30, 2021 and 2020 and for the six months then ended and no material exceptions were noted.

We draw attention to Note 2 to the financial statements which discusses that the financial statements have been revised and reissued to amend and to include additional information on the Company's certain transactions during the periods presented.

This report supersedes our audit report on the previously issued financial statement dated August 6, 2021.

PUNONGBAYAN & ARAULLO



By: **James Joseph Benjamin J. Araullo**
Partner

CPA Reg. No. 0111202
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

October 5, 2021

MEDILINES DISTRIBUTORS INCORPORATED
Schedule of Financial Soundness Indicators
June 30, 2021 and June 30, 2020
(Amounts in Philippine Pesos)

	2021		2020	
Current Ratio				
Total Current Assets	3,248,565,623		1,841,816,849	
Total Current Liabilities	2,785,462,412	1.17	1,235,220,330	1.49
Acid Test Ratio				
Total Quick Assets (Total Current Assets less Contract assets, Inventories - net and Prepayments and other current assets)	1,938,188,213		1,703,663,187	
Total Current Liabilities	2,785,462,412	0.70	1,235,220,330	1.38
Solvency Ratio				
Net Profit + Non-cash Expenses	129,987,144		(6,525,588)	
Total Liabilities	2,908,658,034	0.04	1,353,072,695	-0.00
Debt-to-equity Ratio				
Total Liabilities	2,908,658,034		1,353,072,695	
Total Equity	500,249,776	5.81	551,082,310	2.46
Asset-to-equity Ratio				
Total Assets	3,408,907,810		1,904,155,005	
Total Equity	500,249,776	6.81	551,082,310	3.46
Interest Rate Coverage Ratio				
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	157,390,084		7,802,973	
Interest Expense	21,511,386	7.32	13,645,839	0.57
Return on Equity				
Net Profit	100,045,543		(13,035,260)	
Total Equity	500,249,776	20%	551,082,310	-2%
Return on Assets				
Net Profit	100,045,543		(13,035,260)	
Total Assets	3,408,907,810	3%	1,904,155,005	-1%
Net Profit Margin				
Net Profit	100,045,543		(13,035,260)	
Total Revenues	815,089,992	0.12	213,701,795	-0.06
Book Value Per Share				
Total Equity	500,249,776		551,082,310	
Number of Shares Outstanding	400,000	1,250.62	400,000	1,377.71
Earnings Per Share				
Net Profit	100,045,543		(13,035,260)	
Weighted Average Number of Shares Outstanding	400,000	250.11	400,000	-32.59