

# COVER SHEET

SEC Registration Number

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Company Name

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I	N	C	O	R	P	O	R	A	T	E	D															

Principal Office (No./Street/Barangay/City/Town/Province)

3	r	d		F	l	o	o	r		V	i	s	t	a	m	a	l	l		H	u	b	,		C	.	V	.
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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A	
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### COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
<a href="mailto:investorrelations@medilines.com.ph">investorrelations@medilines.com.ph</a>	(+632)7747-1076/(+632)8519-2012	-
No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
13	First Monday of June	December 31

### CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Luis Melquiades P. Garcia III	<a href="mailto:investorrelations@medilines.com.ph">investorrelations@medilines.com.ph</a>	(+632)7747-1076	-

Contact Person's Address

**3<sup>rd</sup> Floor, Vistamall Hub, C.V.  
Starr Ave., Pamplona Dos, Las  
Piñas City.**

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

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND  
SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES**

1. For the quarterly period ended **September 30, 2022**
2. SEC Identification No. **CS200251064**
3. BIR Tax Identification No. **219075614000**
4. Exact name of the registrant as specified in its charter  
**MEDILINES DISTRIBUTORS INCORPORATED**
5. Philippines  
Province, Country or other jurisdiction of  
Incorporation or organization
6. \_\_\_\_\_(SEC use only)  
Industry Classification code:
7. **3<sup>rd</sup> Floor, Vistamall Hub, C.V. Starr Ave., Pamplona Dos, Las Piñas, City, 1740**  
Address of principal office Postal Code
8. **(+632)7747-1076/(+632)8519-2012**  
Registrant's telephone number, including area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last year
10. Securities registered pursuant to Section 4 and 8 of the RSA

Title of Each Class Outstanding	Number of Shares of Common Stock and Amount of Debt Outstanding
<b>Common Shares</b>	<b>2,750,000,800</b>
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes  No
12. Check weather the registrant:
  - a. Has filed all reports to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):  
Yes  No
  - b. Has been subject to such filing requirements for the past 90 days  
Yes  No
13. State the aggregate market value of the voting stock held by non-affiliates of the registrant  
**The aggregate market value as of the voting stock held by non-affiliates is about Php1.06 billion , based on the stock price of Medilines Distributors Incorporated as of 31 December 2021.**

**MEDILINES DISTRIBUTORS INCORPORATED**
**Unaudited Statements of Financial Position (in Philippine Peso)**

	30-Sep		31-Dec	
	2022	2021	2021	2020
	Unaudited	Unaudited	Audited	Audited
<b><u>ASSETS</u></b>				
<b>Current Assets</b>				
Cash	P 80,663,181	P 66,690,898	P 930,811,224	P 62,449,900
Trade and other receivables - net	1,788,901,498	1,748,060,416	1,477,306,724	1,620,393,289
Contract assets	1,267,423,928	1,109,954,462	1,195,263,315	961,587,571
Inventories - net	42,514,268	219,126,143	120,421,869	230,727,029
Prepayments and other current assets	87,477,282	17,389,024	90,917,073	27,749,312
Total Current Assets	3,266,980,157	3,161,220,943	3,814,720,205	2,902,907,101
<b>Non-current assets</b>				
Property and equipment - net	182,464,182	141,246,551	155,442,563	165,975,928
Right-of-use asset - net	1,171,430	4,164,887	1,171,430	5,801,663
Guarantee deposits	2,366,122	2,366,122	2,366,122	2,016,822
Deferred tax assets	12,172,301	14,006,059	12,172,301	9,379,502
Total Non-current Assets	198,174,035	161,783,619	171,152,416	183,173,915
<b>TOTAL ASSETS</b>	<b>P 3,465,154,193</b>	<b>P 3,323,004,562</b>	<b>P 3,985,872,621</b>	<b>P 3,086,081,016</b>
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>Current liabilities</b>				
Trade and other payables	P 1,124,584,139	P 1,286,907,848	P 1,367,946,585	P 1,169,791,201
Loans and other borrowings	276,060,789	972,616,216	578,521,722	1,119,979,767
Lease liability	0	5,661,476	1,341,992	-
Contract liabilities	10,324,566	3,788,826	-	37,288,830
Income tax payable	21,073,994	69,338,306	21,073,994	3,605,729
Total Current Liabilities	1,432,043,488	2,338,312,671	1,968,884,293	2,330,665,527
<b>Non-current liabilities</b>				
Loans and other borrowings	3,821,897	65,317,092	69,183,561	90,710,762
Deposit for future stock subscription	-	-	-	-
Lease liability	-	6,885,520	-	4,159,299
Retirement benefit obligation	2,027,099	6,948,186	7,027,099	4,343,118
Total Non-current Liabilities	5,848,996	79,150,798	76,210,660	99,213,179
Total Liabilities	1,437,892,484	2,417,463,469	2,045,094,953	2,429,878,706
<b>Equity</b>				
Capital stock	687,500,200	550,000,200	687,500,200	400,000,000
Additional paid-in capital	1,084,071,109	-	1,084,071,109	-
Retained earnings	255,690,400	355,540,893	171,441,619	256,810,119
Revaluation reserves	-	-	(2,235,260)	(607,809)
Total Equity	2,027,261,709	905,541,093	1,940,777,668	656,202,310
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P 3,465,154,193</b>	<b>P 3,323,004,562</b>	<b>P 3,985,872,621</b>	<b>P 3,086,081,016</b>

**MEDILINES DISTRIBUTORS INCORPORATED**

Unaudited Statements of Comprehensive Income (in Philippine Peso)

	For nine months ended September 30		For three months ended September 30	
	2022	2021	2022	2021
	Unaudited	Unaudited	Unaudited	Unaudited
<b>REVENUES</b>	P 1,207,628,594	P 953,582,100	352,756,015	138,492,108
<b>DIRECT COST</b>	972,325,045	776,527,100	283,517,055	138,952,335
<b>GROSS PROFIT</b>	235,303,549	177,055,000	69,238,960	(460,227)
<b>OPERATING EXPENSES</b>	96,088,076	71,623,730	30,969,240	4,995,456
<b>OPERATING PROFIT (LOSS)</b>	139,215,473	105,431,270	38,269,720	(5,455,683)
<b>OTHER INCOME (CHARGES) - net</b>	10,022,879	24,403,452	3,028,544	4,863,780
<b>PROFIT (LOSS) BEFORE TAX</b>	149,238,352	129,834,722	41,298,264	(591,903)
<b>TAX EXPENSE</b>	37,309,588	30,496,139	10,324,566	115,057
<b>NET PROFIT (LOSS)</b>	111,928,764	99,338,583	30,973,698	(706,960)
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Remeasurement loss on retirement benefit obligation	-	-	-	-
Tax income	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P 111,928,764</b>	<b>P 99,338,583</b>	<b>P 30,973,698</b>	<b>(706,960)</b>

**MEDILINES DISTRIBUTORS INCORPORATED**  
**Unaudited Statements of Cash Flows (in Philippine Peso)**

	30-Sep		31-Dec	
	2022 Unaudited	2021 Unaudited	2021 Audited	2020 Audited
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax	P 149,238,352	P 129,834,722	P 209,875,664	P 147,233,326
Adjustments for:				
Interest expense	7,790,487	(22,048,968)	47,402,126	31,051,679
Loss (gain) on sale of property and equipment	-	(28,894,879)	(28,894,879)	-
Expected credit losses	-	23,322,655	18,350,560	368,225
Depreciation and amortization	6,168,746	4,656,427	10,142,188	10,884,336
Loss on lease modification	-	1,166,873	1,166,873	-
Interest income	-	(54,688)	(159,603)	(224,737)
Unrealized foreign exchange losses - net	51,194	93,392	(37,142)	3,457,047
Loss from inventory obsolescence	-	-	-	-
Operating profit before working capital changes	163,248,779	108,075,534	257,845,787	192,769,876
Decrease (increase) in trade and other receivables	(311,594,774)	(151,667,128)	124,736,005	78,644,637
Decrease (increase) in contract assets	(72,160,614)	(148,366,891)	(233,675,744)	(961,587,571)
Decrease (increase) in inventories	77,907,601	11,600,886	111,790,071	(190,012,656)
Decrease (increase) in prepayments and other current assets	3,439,791	10,360,288	(63,167,761)	(16,872,392)
Increase (decrease) in trade and other payables	(243,362,446)	(81,038,737)	200,084,466	373,881,015
Increase (decrease) in contract liabilities	-	48,264,312	17,468,265	(92,445,992)
Increase in retirement benefit obligation	(5,000,000)	(78,913)	571,932	970,432
Cash generated (used in) operations	(387,521,663)	(202,850,649)	415,653,021	(614,652,651)
Income taxes paid	(26,985,022)	(30,496,139)	(79,815,614)	(31,051,679)
Interest paid	(7,790,487)	(22,048,968)	(47,224,754)	(28,546,525)
Interest received	-	(54,688)	134,021	224,737
<b>Net Cash From (Used in) Operating Activities</b>	<b>(422,297,172)</b>	<b>(255,450,444)</b>	<b>288,746,674</b>	<b>(674,026,118)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sale of property and equipment	251,920	51,582,073	50,714,288	2,156,697
Acquisitions of property and equipment	(33,442,285)	(945,583)	(18,896,812)	(127,489,314)
Payment of refundable deposits	-	(349,300)	(349,300)	-
<b>Net Cash From (Used In) Investing Activities</b>	<b>(33,190,365)</b>	<b>50,287,190</b>	<b>31,468,176</b>	<b>(125,332,617)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayments of interest-bearing loans and borrowings	(841,763,114)	(855,377,105)	(1,651,477,782)	(375,359,229)
Issuance of share capital - net	-	150,000,200	1,371,571,309	-
Proceeds from interest-bearing loans and borrowings	473,940,517	916,922,367	1,088,492,536	1,181,609,532
Proceeds from deposit for future stock subscription	-	-	-	-
Cash dividends paid	(25,444,723)	-	(255,000,000)	(4,567,500)
Payments of lease liability	(1,341,992)	(1,647,817)	(5,476,731)	(2,189,691)
<b>Net Cash From (Used in) Financing Activities</b>	<b>(394,609,312)</b>	<b>209,897,645</b>	<b>548,109,332</b>	<b>799,493,112</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(51,194)</b>	<b>(93,392)</b>	<b>37,142</b>	<b>(1,035,147)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(850,148,043)</b>	<b>4,640,999</b>	<b>868,361,324</b>	<b>(900,770)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>930,811,224</b>	<b>62,449,900</b>	<b>62,449,900</b>	<b>63,350,670</b>
<b>CASH AT END OF YEAR</b>	<b>P 80,663,181</b>	<b>P 67,090,899</b>	<b>P 930,811,224</b>	<b>P 62,449,900</b>

**MEDILINES DISTRIBUTORS INCORPORATED**  
**Unaudited Statements of Changes in Equity (in Philippine Peso)**

	<u>Capital Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>	<u>Revaluation Reserves</u>	<u>Total</u>
Balance at January 1, 2022	P 687,500,200	P 1,084,071,109	P 171,441,619	P (2,235,260)	P 1,940,777,668
Issuance of shares	-	-	-	-	-
Cash dividends	-	-	(25,444,723)	-	(25,444,723)
Total comprehensive income for the year	-	-	111,928,764	-	111,928,764
<b>Balance at September 30, 2022</b>	<b>P 687,500,200</b>	<b>P 1,084,071,109</b>	<b>P 257,925,660</b>	<b>P (2,235,260)</b>	<b>P 2,027,261,709</b>
Balance at January 1, 2021	P 400,000,000	-	P 256,810,119	P (607,809)	P 656,202,310
Issuance of shares	150,000,200	-	-	-	P 150,000,200
Cash dividends	-	-	-	-	-
Total comprehensive income for the year	-	-	74,312,640	-	74,312,640
<b>Balance at September 30, 2021</b>	<b>P 550,000,200</b>	<b>-</b>	<b>P 331,122,759</b>	<b>P (607,809)</b>	<b>P 880,515,150</b>
Balance at January 1, 2021	P 400,000,000	-	P 256,810,119	P (607,809)	656,202,310
Issuance of shares	287,500,200	1,084,071,109	-	-	1,371,571,309
Cash dividends	-	-	(255,000,000)	-	(255,000,000)
Total comprehensive income for the year	-	-	169,631,500	(1,627,451)	168,004,049
<b>Balance at December 31, 2021</b>	<b>P 687,500,200</b>	<b>P 1,084,071,109</b>	<b>P 171,441,619</b>	<b>P (2,235,260)</b>	<b>P 1,940,777,668</b>
Balance at January 1, 2020					
As previously reported	P 400,000,000	-	P 160,965,499	-	P 560,965,499
Prior period adjustments	-	-	(7,218,932)	(310,910)	(7,529,842)
As restated	400,000,000	-	153,746,567	(310,910)	553,435,657
Total comprehensive income for the year	-	-	103,063,552	(296,899)	102,766,653
<b>Balance at December 31, 2020</b>	<b>P 400,000,000</b>	<b>-</b>	<b>P 256,810,119</b>	<b>P (607,809)</b>	<b>P 656,202,310</b>

**MEDILINES DISTRIBUTORS INCORPORATED**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2022 AND 2021**  
*(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 Company's shares were listed in the Philippine Stock Exchange (PSE) on December 7, 2021 and were traded under the ticker MEDIC (see Note 20).

The registered office of the Company, which is also its principal place of business, is located at 3<sup>rd</sup> Floor Vistamall Hub, Pamplona Dos, Las Pinas City.

***1.2 Continuing Impact of COVID-19 Pandemic on the Company's Business***

The COVID-19 pandemic started to become widespread in the Pahilippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

In 2021 and 2020, 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 fluctuations in delivery schedule depending on varying countries' protocols.

- Delays in collection resulting from delays in project implementation and project installations due to several factors including but not limited to the following:
  - Strict COVID-19 guidelines implemented by the Inter-agency Task Force for the Management of Emerging Infectious Diseases;
  - Rapid changes in COVID-19-related protocols across cities;
  - Scarcity of materials for project completion on the construction of medical facilities and installation of medical equipment; 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 operational costs 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.
- Disruption on the supply chain of materials, facilities and other products, which in turn caused delays in imports through the effect of travel restrictions, quarantines, closure of factories and facilities.
- Increase in the volatility or cause disruption of global financial markets and affected the Company's capabilities of accessing funding resources on favorable or acceptable terms.

In response to these matters, 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.
- Payment collection as the primary focus of Company efforts, with sales only secondary.
- Continued 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 debt, negotiation of payment terms with suppliers, consolidation of deliveries to reduce shipping charges, among others.
- Provision of hazard pay to employees who needed to visit 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 measures in place to adapt to and address pandemic-related issues in 2021, the Company saw more stable operations and increasingly positive results as the economy continued with its recovery. Overall net impact is an increase in net profit of 65% compared to that of 2020.

Management will continue to take actions to continually improve the operations as the need arises. Based on the foregoing improvements, management projects that the Company would continue to report positive results 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 due to the effects of the pandemic.

## 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 years 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.

## **2.2 Adoption of Amended PFRS**

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

The Company adopted for the first time PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*, which are mandatorily effective for annual periods beginning on or after January 1, 2021. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments have no impact to the Company's financial statements as the Company did not have any financial instruments subject to LIBOR.

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

There are amendments to existing standards 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, none of these are expected to have significant impact on the Company's financial statements:

- (i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from April 1, 2021)
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)
- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)
- (iv) 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*
  - Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*
- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (vi) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (vii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(viii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

### **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 Instruments – Presentation*. All other non-derivative financial instruments are treated as debt instruments.

#### *(i) Classification, Measurement and Reclassification 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 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 Other Income (Charges) 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. The measurement of ECL involves consideration of a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

For trade and other receivables, the Company recognizes lifetime ECL when there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Company measures and provides for credit losses that are expected to result from default events that are possible within 12 months after the end of the reporting period.

The Company determines whether there has been a significant increase in credit risk for financial asset since initial recognition by comparing the risk of default occurring over the expected life of the financial asset between the reporting date and the date of the initial recognition. In making this assessment, the Company considers both quantitative and qualitative information that may indicate an actual or expected deterioration of the credit quality of the financial assets.

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 or effect of any credit enhancement.
- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost.

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, and trade and other payables (excluding tax-related payables) 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 Finance Costs in the statement of comprehensive income.

Loans and other borrowings are raised for support of short-term and 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 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.

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.

***2.6 Property and Equipment***

The Company's property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

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.

Construction-in-progress represents a warehouse under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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 year 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) *Construction of medical facilities and installation of 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.
- (c) *Distribution income* – Revenue from warehousing and logistics services is recognized over time and is equivalent to a percentage of the counterparty's net sales.

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 integrated circuits 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.

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**

### **(a) Company as Lessee**

For any new contracts entered into, 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 and lease liabilities have been presented separately from all other assets and liabilities, respectively.

*(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 year 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 year-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 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 year. 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 assets and liabilities 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.

Based on the requirements of SEC Memorandum Circular 2019-10, *Rules on Material Related Party Transactions for Publicly-Listed Entities*, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with the related parties are considered material.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-third of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Company's total assets based on the latest audited financial statements, the same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

### ***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 segments, 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 parent company 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.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserves comprise remeasurements of retirement benefit obligation.

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.

### ***2.18 Basic and Diluted Earnings Per Share***

Basic earnings per share (EPS) is determined by dividing net profit by the weighted average number of common shares issued, retrospectively 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 by the weighted average number of common shares issued and outstanding during the reporting period. However, net profit 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.

### ***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) *Construction of Medical Facilities and Installation of Medical Equipment*

The Company determines that its revenue from construction of medical facilities and installation of 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 construction 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 of Financial Assets at Amortized Cost*

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 financial assets at amortized cost 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 Percentage of Completion (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 percentage of completion 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(b).

(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 September 30, 2022, December 31, 2021 and 2020, there is no change in estimated useful lives of those assets during those years. 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 September 30, 2022, December 31, 2021 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, right-of-use assets and other non-financial assets in 1<sup>st</sup> Quarter of 2022, 2021, 2020 and 2019.

*(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.

#### 4. OPERATING SEGMENT

The Company has only one reportable segment, i.e., distribution of medical equipment, 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 September 30:

	<b>September 30</b> <b>2022</b>	December 31 2021
Cash in banks	<b>P 80,549,216</b>	P 930,742,259
Cash on hand	<u>113,965</u>	<u>68,965</u>
	<b><u>P 80,663,181</u></b>	<b><u>P 930,811,224</u></b>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Interest income earned amounted to P123,053 and P159,603 in the three quarters ended September 31, 2022 and for the year ended December 31, 2021 respectively, and is presented as Interest income under Other Income (Charges) – net in the statements of comprehensive income.

#### 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<b>September 30</b> <b>2022</b>	December 31 2021
Trade receivables:		
Third parties	<b>P 1,316,436,208</b>	P1,307,058,381
Related parties	<u>18,694,617</u>	<u>20,762,548</u>
	<b>1,335,130,824</b>	1,327,820,929
Allowance for expected credit losses	<b>( 33,017,152)</b>	<b>( 33,017,152)</b>
	<b><u>1,302,113,672</u></b>	<b><u>1,294,803,777</u></b>
Non-trade receivables:		
Advances to suppliers	<b>P 473,975,187</b>	170,816,723
Advances to a related party	<b>9,811,900</b>	9,614,666
Advances to employees	<b>2,462,057</b>	1,390,376
Other receivables	<b>538,681</b>	<u>681,182</u>
	<b><u>P 486,787,826</u></b>	<b><u>182,502,947</u></b>
	<b><u>P 1,788,901,498</u></b>	<b><u>P 1,477,306,724</u></b>

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 reporting period.

Other receivables generally arise from transactions outside the usual operating activities of the Company. These receivables pertain to non-trade borrowings by third parties which have market connections and are customers of the Company.

A reconciliation of the allowance for impairment for the three quarters ended September 30, 2022 and year ended 2021 is shown below.

	September 30 <u>2022</u>	December 31 <u>2021</u>
Balance at beginning of year	<b>P 33,017,152</b>	P 14,666,592
Provision for ECL	<u>-</u>	<u>18,350,560</u>
Balance at end of year	<b><u>P 33,017,152</u></b>	<b><u>P 33,017,152</u></b>

Provision for ECL is presented as part of Operating Expenses in the statements of comprehensive income.

Below is a table on the aging of the Company's Receivables

**September 30, 2022**

Days past due	Expected Loss Rate	Gross carrying amount at September 30, 2022
0 – 120	0.00%	1,564,946,426
121 – 180	0.00%	53,156,482
181 – 365	0.00%	124,126,913
Above 365	0.00%	46,671,677
		<u>1,788,901,498</u>

**December 31, 2021**

Days past due	Expected Loss Rate	Gross carrying amount at December 31, 2021
0 – 120	0.00%	794,488,808
121 – 180	0.00%	107,006,138
181 – 365	0.00%	180,877,069
Above 365	0.00%	255,063,580
		<u>1,337,435,595</u>

## 7. INVENTORIES

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

	September 30 <u>2022</u>	December 31 <u>2021</u>
Inventories	<b>P 51,025,801</b>	P 128,933,402
Allowance for inventory obsolescence	<b>(<u>8,511,533</u>)</b>	<b>(<u>8,511,533</u>)</b>

P 42,514,268    P 120,421,869

In 2019, the Company provided an allowance for obsolete inventories amounting to P8,511,533. The Company assessed that there were no additional obsolete and impaired inventories in 2022, 2021 and 2020. Loss on inventory obsolescence is presented as part of Operating Expenses in the 2019 statement of comprehensive income.



## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of September 30, 2022 and December 31, 2021 is shown below.

	September 30 <u>2022</u>	December 31 <u>2021</u>
Input VAT	<b>P 38,972,791</b>	P 79,893,428
Bid and construction bonds	<b>3,424,485</b>	3,424,485
Creditable withholding tax	<b>995,703</b>	5,026,185
VAT withholding tax	<b>42,110,538</b>	1,031,023
Prepaid insurance	<b>542,331</b>	697,221
Rental and other deposits	<b>285,297</b>	489,493
Others	<u><b>1,146,139</b></u>	<u>355,238</u>
	<u><b>P 87,477,282</b></u>	<u>P 90,917,073</u>

Bid bonds are issued by contractors to the project owner as part of supply bidding process to provide guarantee that the winning bidder 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.

Deferred input tax pertains to VAT from purchases of capital goods exceeding P1.0 million which is amortized for the succeeding period.

Other prepayments include expenses that have been paid but have not yet been used up or expired such as internet subscription and prepayments for employees' medical check-up.

## 9. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property and equipment for the period ended September 30, 2022 and years ended 2021 and 2020 are shown below.

	<u>Computer Equipment</u>	<u>Furnitures &amp; Fixtures</u>	<u>Demo Unit</u>	<u>Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Warehouse Tools And Equipment</u>	<u>Building - Warehouse</u>	<u>Land</u>	<u>Office Condominium Unit</u>	<u>Construction in Progress</u>	<u>Total</u>
September 30, 2022											
Cost	15,326,985	2,780,968	23,837,401	7,110,159	8,915,284	5,195,327	40,910,730	121,350,000	13,907,143	-	239,333,997
Accumulated Depreciation	<u>(9,650,944)</u>	<u>(2,475,762)</u>	<u>(22,407,566)</u>	<u>(7,110,159)</u>	<u>(7,607,976)</u>	<u>(2,518,214)</u>	<u>(250,568)</u>	=	<u>(4,848,626)</u>	=	<u>(56,869,815)</u>
Net carrying amount	<u><b>5,676,041</b></u>	<u><b>305,206</b></u>	<u><b>1,429,835</b></u>	<u><b>-</b></u>	<u><b>1,307,308</b></u>	<u><b>2,677,113</b></u>	<u><b>40,660,162</b></u>	<u><b>121,350,000</b></u>	<u><b>9,058,517</b></u>	<u><b>=</b></u>	<u><b>182,464,182</b></u>
December 31, 2021											
Cost	12,458,701	2,345,357	23,837,401	7,110,159	8,355,463	1,523,773	-	121,350,000	13,907,143	15,840,903	206,728,900
Accumulated Depreciation	<u>(6,264,033)</u>	<u>(2,345,357)</u>	<u>(21,648,925)</u>	<u>(7,110,159)</u>	<u>(7,962,678)</u>	<u>(1,523,773)</u>	=	=	<u>(4,431,412)</u>	=	<u>(51,286,337)</u>
Net carrying amount	<u><b>6,194,668</b></u>	<u><b>=</b></u>	<u><b>2,188,476</b></u>	<u><b>=</b></u>	<u><b>392,785</b></u>	<u><b>=</b></u>	<u><b>=</b></u>	<u><b>121,350,000</b></u>	<u><b>9,475,731</b></u>	<u><b>15,840,903</b></u>	<u><b>155,442,563</b></u>
December 31, 2020											
Cost	9,402,792	2,345,357	28,596,521	7,110,159	8,355,463	1,523,773	-	121,350,000	39,986,548	-	218,670,613
Accumulated Depreciation	<u>(4,753,412)</u>	<u>(2,345,357)</u>	<u>(21,921,248)</u>	<u>(7,110,159)</u>	<u>(7,427,202)</u>	<u>(1,523,773)</u>	=	=	<u>(7,613,534)</u>	=	<u>(52,694,685)</u>
Net carrying amount	<u><b>4,649,380</b></u>	<u><b>=</b></u>	<u><b>6,675,273</b></u>	<u><b>=</b></u>	<u><b>928,261</b></u>	<u><b>=</b></u>	<u><b>=</b></u>	<u><b>121,350,000</b></u>	<u><b>32,373,014</b></u>	<u><b>=</b></u>	<u><b>165,975,928</b></u>

A reconciliation of the carrying amounts of property and equipment for the two quarters ended September 30, 2022 and year ended 2021 is shown below.

	<u>Computer Equipment</u>	<u>Furnitures &amp; Fixtures</u>	<u>Demo Unit</u>	<u>Leasehold Improvements</u>	<u>Transportation Equipment</u>	<u>Warehouse Tools And Equipment</u>	<u>Building - Warehouse</u>	<u>Land</u>	<u>Office Condominium Unit</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2022, net of accumulated depreciation	6,194,668	-	2,188,476	-	392,785	-	-	121,350,000	9,475,731	15,840,903	155,442,563
Additions	2,909,936	435,611	-	-	1,355,357	3,671,554	23,810,177	-	-	1,259,650	33,442,285
Reclassification	-	-	-	-	-	-	17,100,553	-	-	-	-
Cost of asset disposed	41,652	-	-	-	795,536	-	-	-	-	-	837,188
Accumulated depreciation of asset disposed/ reclassified	41,652	-	-	-	543,616	-	-	-	-	-	585,268
Depreciation charges for the year	3,428,563	130,405	758,641	-	188,914	994,441	250,568	-	417,214	-	6,168,746
Balance at September 30, 2022, net of accumulated depreciation	<u>5,676,041</u>	<u>305,206</u>	<u>1,429,835</u>	=	<u>1,307,308</u>	<u>2,677,113</u>	<u>40,660,162</u>	<u>121,350,000</u>	<u>9,058,517</u>	=	<u>182,464,182</u>
Balance at January 1, 2021, net of accumulated depreciation	4,649,380	-	6,675,273	-	928,261	-	-	121,350,000	32,373,014	-	165,975,928
Additions	3,055,909	-	-	-	-	-	-	-	-	15,840,903	18,896,812
Reclassification	-	-	4,759,120	-	-	-	-	-	-	-	4,759,120
Cost of asset disposed	-	-	-	-	-	-	-	-	26,079,405	-	26,079,405
Accumulated depreciation of asset disposed/ reclassified	-	-	3,274,209	-	-	-	-	-	4,259,996	-	7,534,205
Depreciation charges for the year	1,510,621	-	3,001,886	-	535,476	-	-	-	1,077,874	-	6,125,857
Balance at December 31, 2021, net of accumulated depreciation	<u>6,194,668</u>	=	<u>2,188,476</u>	=	<u>392,785</u>	=	=	<u>121,350,000</u>	<u>9,475,731</u>	<u>15,840,903</u>	<u>155,442,563</u>

Depreciation expense amounting to P 6,168,746, P6,125,857 and P8,950,448 for the three quarters ended September 30, 2022, 2021 and 2020, respectively, is presented as part of Operating Expenses in the statements of comprehensive income.

## 10. LEASES

The Company have existing leases for warehouse and vehicles. The warehouse lease is reflected on the statements of financial position as a right-of-use asset and a lease liability, while the exception of short-term lease and lease of low-value underlying asset is applied to the vehicle 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. 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 ensure 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 lease modification amounted to P1,166,872 and is presented as part of Other Income (Charges) – net in the 2021 statement of comprehensive income (see Note 16.2).

In June 2022, the company moved to the new warehouse located at No. 54 E. Rodriguez Avenue backing F. Pike St., Bagong Ilog, Pasig City and the lease agreement in Mandaluyong was terminated.

### ***10.1 Right-of-use Asset***

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

	<b>September 30</b>	December 31
	<b>2022</b>	2021
Cost		
Balance at beginning of the period	<b>P 8,032,662</b>	P 9,669,439
Effect of lease modification	<b>( )</b>	( 1,636,777)
Balance at end of the period	<b><u>8,032,662</u></b>	<u>8,032,662</u>
Accumulated amortization:		
Balance at beginning of the period	<b>6,861,232</b>	3,867,776
Depreciation and amortization	-	4,016,331
Effect of lease modification	<b>( )</b>	( 1,022,875)
Balance at end of the period	<b><u>6,861,232</u></b>	<u>6,861,232</u>
Carrying amount	<b><u>P 1,171,430</u></b>	<b><u>P 1,171,430</u></b>

## 10.2 Lease Liability

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

	September 30 <u>2022</u>	December 31 <u>2021</u>
Current	<b>P -</b>	P 1,341,992
Non-current	<u>-</u>	<u>-</u>
	<b><u>P -</u></b>	<b><u>P 1,341,992</u></b>

The carrying amount of the Company's lease liability and the movements during the periods are shown below.

	Note	September 30 <u>2022</u>	December 31 <u>2021</u>
Balance at beginning of the period		<b>P 1,341,992</b>	P 6,088,381
Repayment of lease liability		<b>( 1,341,992)</b>	( 5,476,731)
Effect of lease modification	16.2	-	552,970
Accretion of interest expense		<u>-</u>	<u>177,372</u>
Balance at end of the period		<b><u>P -</u></b>	<b><u>P 1,341,992</u></b>

The lease liability is secured by the related underlying asset. The undiscounted maturity analysis of lease liability at September 30 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>
<b>September 30, 2022</b>					
Lease payments	P -	P -	P -	P -	P -
Finance charges	( -)	-	-	-	( -)
Net present value	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>
<b>December 31, 2021</b>					
Lease payments	P 1,356,000	P -	P -	P -	P 1,356,000
Finance charges	( 14,008)	-	-	-	( 14,008)
Net present value	<b><u>P 1,341,992</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 1,341,992</u></b>
<b>December 31, 2020</b>					
Lease payments	P 1,094,845	P 1,094,845	P 2,189,691	P 2,189,691	P 6,569,072
Finance charges	( 142,336)	( 118,272)	( 161,914)	( 58,169)	( 480,691)
Net present value	<b><u>P 952,509</u></b>	<b><u>P 976,573</u></b>	<b><u>P 2,027,777</u></b>	<b><u>P 2,131,522</u></b>	<b><u>P 6,088,381</u></b>

## 11. TRADE AND OTHER PAYABLES

This account consists of:

	September <u>2022</u>	December <u>2021</u>
Trade payables:		
Third parties	P 875,053,437	P 1,225,764,955
Related parties	<u>6,172,419</u>	<u>5,540,099</u>
	<b>881,225,856</b>	1,231,305,054
Deferred output VAT	<b>145,205,848</b>	127,501,275
Payable to government agencies	-	5,892,056
Accrued expenses	<u>98,152,435</u>	<u>3,248,200</u>
	<b><u>P 1,124,584,139</u></b>	<b><u>P 1,367,946,585</u></b>

Trade payables are noninterest-bearing and are due within the next reporting 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 SSS, Home Development Mutual Fund (HDMF), and Philippine Health Insurance Corporation (PHIC) contributions.

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 as of September 30 are broken down as follows:

	September 30 <u>2022</u>	December 31 <u>2021</u>
Trust receipts	<b>P 96,060,789</b>	P 258,347,881
Notes payable	<u>183,821,897</u>	<u>389,357,402</u>
	<b><u>P 279,882,686</u></b>	<b><u>P 647,705,283</u></b>

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

	September 30 <u>2022</u>	December 31 <u>2021</u>
Current	<b>P 276,060,789</b>	P 578,521,722
Non-current	<u>3,821,897</u>	<u>69,183,561</u>
	<b><u>P 279,882,686</u></b>	<b><u>P 647,705,283</u></b>

A reconciliation of the carrying amounts of loans and other borrowings for the period ended September 30, 2022 and for the year ended 2021 is shown below.

<u>Note</u>	<u>September 30 2022</u>	<u>December 31 2021</u>
Balance at beginning year	<b>P 647,705,283</b>	P 1,210,690,529
Additions	<b>473,940,317</b>	1,088,492,536
Repayments	<b>( 841,762,914)</b>	( 1,651,477,782)
Balance at end of the year	<b><u>P 279,882,686</u></b>	<u>P 647,705,283</u>

### ***12.1 Liabilities under Letters of Credits and Trust Receipts***

In 2021, 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% 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 September 30, 2022 and December 31, 2021, the Company has an outstanding trust receipts payable with various banks broken down as follows:

	<u>2022</u>	<u>2021</u>
Rizal Commercial Banking Corporation	<b>P 72,001,861</b>	P 98,441,667
Bank of the Philippine Islands	-	88,216,071
Philippine National Bank	<b>24,058,928</b>	71,690,143
BDO Unibank	-	-
Security Bank	-	-
	<b><u>P 96,060,789</u></b>	<u>P 258,347,881</u>

### ***12.2 Notes Payable***

Notes payable represents 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 as of September 30, 2022 and December 31, 2021 are broken down as follows:

	<u>September 30 2022</u>	<u>December 31 2021</u>
Current	<b>P 180,000,000</b>	P 320,173,841
Non-current	<b><u>3,821,897</u></b>	<u>69,183,561</u>
	<b><u>P 183,821,897</u></b>	<u>P 389,357,402</u>

### 12.3 Interest Expense and Bank Charges

Interest expense on loans and other borrowings amounting to P 7,790,487 and P 22,248,968 in the three quarter ended September 2022 and 2021 respectively, is presented as part of Finance Charges under Other Income (Charges) – net in the statements of comprehensive income.

## 14. REVENUE

### 14.1 Disaggregation of Contract Revenues

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

	Sale of Medical Equipment (point in time)	Construction and Installation (over time)	Total
<i>September 30, 2022</i>			
Primary geographical markets			
Luzon	P 308,122,526	P 457,305,904	P 765,428,430
Visayas	65,337,068	26,028,972	91,366,040
Mindanao	<u>152,528,371</u>	<u>198,305,752</u>	<u>350,834,124</u>
	<b><u>P 525,987,965</u></b>	<b><u>P 681,640,629</u></b>	<b><u>P 1,207,628,594</u></b>
<i>September 30, 2021</i>			
Primary geographical markets			
Luzon	P 473,237,914	P123,824,128	P 597,062,042
Visayas	11,548,500	122,968,750	134,517,250
Mindanao	<u>89,532,370</u>	<u>132,470,439</u>	<u>222,002,809</u>
	<b><u>P 574,318,783</u></b>	<b><u>P 379,263,317</u></b>	<b><u>P 953,582,100</u></b>
<i>December 31, 2021</i>			
Primary geographical markets			
Luzon	P 842,743,575	P 186,522,529	P 1,029,266,104
Visayas	33,249,485	201,149,452	234,398,937
Mindanao	<u>131,023,723</u>	<u>190,339,653</u>	<u>321,363,376</u>
	<b><u>P1,007,016,783</u></b>	<b><u>P 578,011,634</u></b>	<b><u>P 1,585,028,417</u></b>

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

	Sale of Medical Equipment (point in time)	Construction and Installation (overtime)	Total
<i>September 30, 2022</i>			
Customers			
Private entities	P 90,408,357	P -	P 90,408,357
Government	<u>435,579,608</u>	<u>681,640,629</u>	<u>1,117,220,237</u>
	<b><u>P 525,987,965</u></b>	<b><u>P 681,640,629</u></b>	<b><u>P 1,207,628,594</u></b>



September 30, 2021

Customers			
Private entities	P 179,571,228	P -	P 179,571,228
Government	<u>403,854,699</u>	<u>370,156,174</u>	<u>774,010,872</u>
	<u>P 583,425,926</u>	<u>P 370,156,174</u>	<u>P 953,582,100</u>

December 31, 2021

Customers			
Private entities	P 184,819,204	P -	P 184,819,204
Government	<u>822,197,579</u>	<u>578,011,634</u>	<u>1,400,209,213</u>
	<u><b>P1,007,016,783</b></u>	<u><b>P 578,011,634</b></u>	<u><b>P 1,585,028,417</b></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.

As of September 30, 2022 and December 31, 2021, the balance of contract assets and contract liabilities were as follows:

	<u>2022</u>	<u>2021</u>
Contract assets	<b>P1,267,423,928</b>	P1,195,263,315
Contract liabilities	<b>21,073,994</b>	21,073,994

Contract assets pertains to revenue recognized based on POC that is not yet billed nor collected as of September 30, 2022 and December 31, 2021. As of December 31, 2021, there were no impairment of contract assets.

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

	<u>2022</u>	<u>2021</u>
Contract assets:		
Balance at beginning of period	<b>P 1,195,263,315</b>	P 961,587,571
Transfers from contract assets recognized at the beginning of period to trade receivables	<b>( 436,643,977)</b>	(390,102,945)
Contract assets during the period	<u>508,804,590</u>	<u>623,778,689</u>
Balance at end of period	<u><b>P 1,267,423,928</b></u>	<u>P 1,195,263,315</u>
Contract liabilities:		
Balance at beginning of period	<b>P 21,073,994</b>	P 3,605,729
Revenue recognized that was included in contract liabilities at the beginning of period		( 3,605,729)
Increase due to cash received excluding amount recognized as revenue during the period	<u>-</u>	<u>21,073,994</u>
Balance at end of period	<u><b>P 21,073,994</b></u>	<u>P 21,073,994</u>

## 15. OPERATING EXPENSES BY NATURE

The details of the Company's operating expenses by nature as of September 30, 2022, December 31, 2021 and December 31, 2020 are shown below.

	September 30 <u>2022</u>	September 30 <u>2021</u>	December 31 <u>2021</u>
Change in inventories	<b>P 972,325,045</b>	P 776,527,100	P 1,252,867,427
Salaries and wages	<b>36,392,536</b>	22,950,036	29,309,576
Professional fees	<b>11,844,914</b>	9,913,897	22,908,978
Provision for ECL	-	11,004,354	18,350,560
Taxes and licenses	<b>9,548,355</b>	8,295,419	18,294,941
Depreciation and amortization	<b>6,168,746</b>	5,452,073	10,142,188
Penalties	<b>4,996,829</b>	1,932,431	4,978,716
Freight and handling	<b>5,618,836</b>	2,340,358	4,181,985
Leases	<b>2,523,187</b>	1,396,890	2,054,321
Representation	<b>1,717,427</b>	493,009	1,895,278
Insurance	<b>1,970,660</b>	1,264,933	1,598,963
SSS, HDMF and PHIC contribution	<b>2,766,440</b>	1,069,275	1,323,709
Utilities and communication	<b>1,166,852</b>	891,825	1,203,459
Travel and transportation	<b>2,778,613</b>	557,021	1,192,093
Bidding	<b>861,639</b>	489,196	946,222
Brokerage fee	-	-	925,000
Repairs and maintenance	<b>898,279</b>	553,730	725,400
Meals	<b>1,032,390</b>	358,506	717,784
Association dues	<b>265,757</b>	482,308	670,400
Advertising and promotion	<b>1,121,071</b>	-	627,050
Security and janitorial	<b>1,190,585</b>	376,305	475,234
Supplies	<b>457,850</b>	354,066	420,702
Accommodation	<b>371,897</b>	92,067	235,543
Training and seminars	830,236	440,720	87,184
Miscellaneous	<b><u>1,564,978</u></b>	<u>864,275</u>	<u>2,858,984</u>
	<b><u>P 1,068,413,121</u></b>	<b><u>P 848,150,830</u></b>	<b><u>P1,378,991,697</u></b>

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

	September 30 <u>2022</u>	September 30 <u>2021</u>	December 31 <u>2021</u>
Direct costs	<b>P 972,325,045</b>	P 776,527,100	P1,252,867,427
Operating expenses	<b><u>96,088,076</u></b>	<u>71,623,730</u>	<u>126,124,270</u>
	<b><u>P 1,068,413,121</u></b>	<b><u>P 848,150,830</u></b>	<b><u>P 1,378,991,697</u></b>

The details of direct costs are shown below.

	September 30 <u>2022</u>	September 30 <u>2021</u>	December 31 <u>2021</u>
Inventories at beginning of period	<b>P 219,126,143</b>	P 120,421,869	P 230,727,029
Net purchases during the period	<u>795,713,170</u>	<u>875,231,374</u>	<u>1,142,562,267</u>
	<b>1,014,839,313</b>	995,653,243	1,373,289,296
Inventories at end of period	<u>( 42,514,268)</u>	<u>( 219,126,143)</u>	<u>( 120,421,869)</u>
	<b><u>P 972,325,045</u></b>	<b><u>P 776,527,100</u></b>	<b><u>P 1,252,867,427</u></b>

#### 16. OTHER INCOME (CHARGES) – Net

The breakdown of this account follows:

	September 30 <u>2022</u>	September 30 <u>2021</u>
Other income	<b>P 20,243,709</b>	P 49,144,117
Finance charges	<b>( 9,688,835)</b>	(24,587,930)
Foreign exchanges loss	<b>( 655,048)</b>	( 207,424)
Interest income	<u>123,053</u>	<u>54,688</u>
	<b><u>P 10,022,879</u></b>	<b><u>P 24,403,452</u></b>

### ***16.1 Other Income***

Other income includes the following:

	September 30 <u>2022</u>	September 30 <u>2021</u>
Distribution income	<b>19,061,165</b>	19,073,694
Rent income	<b>1,175,545</b>	1,175,544
Other income	<u>7,000</u>	<u>28,894,879</u>
	<b><u>P 20,243,710</u></b>	<b><u>P 49,144,117</u></b>

### ***16.2 Finance Charges***

The breakdown of this account follows:

	September 30 <u>2022</u>	September 30 <u>2021</u>
Interest expense on borrowings	<b>P 7,790,487</b>	P 22,048,968
Bank charges	1,898,349	1,257,119
Loss on lease modification	-	1,166,873
Interest expense on lease liability	<u>-</u>	<u>114,970</u>
	<b><u>P 9,688,835</u></b>	<b><u>P 24,587,930</u></b>

## **17. EMPLOYEE BENEFITS**

### ***17.1 Salaries and Employee Benefits***

Details of salaries and employee benefits are presented below.

	September 30 <u>2022</u>	September 30 <u>2021</u>
Short-term employee benefits	<b>P 9,301,936</b>	P 6,072,622
Post-employment defined benefit	<u>142,983</u>	<u>142,983</u>
	<b><u>P 9,444,919</u></b>	<b><u>P 6,215,605</u></b>

### 18. 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>2022</u>	<u>2021</u>
Salaries and wages	P9,723,485	P 3,842,974
13 <sup>th</sup> month pay	655,452	318,472
Post-employment defined benefit	76,582	76,582
	<b><u>P6,618,403</u></b>	<b><u>P 4,238,028</u></b>

## 19. EQUITY

### 20.1 Capital Stock

Capital stock consists of:

	<u>Shares</u>			<u>Amount</u>		
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Common shares – P0.25 par value						
Authorized share capital	4,000,000,800	4,000,000,000	400,000	P 1,000,000,200	P 1,000,000,000	P 400,000,000
Issued and outstanding						
Balance at beginning of year	2,750,000,800	400,000	400,000	687,500,200	400,000,000	400,000,000
Increase in number of shares as a result of stock split	-	1,599,600,000	-	-	-	-
Issued during the year	-	1,150,000,800	-	-	287,500,200	-
	<b><u>2,750,000,800</u></b>	<b><u>2,750,000,800</u></b>	<b><u>400,000</u></b>	<b><u>P 687,500,200</u></b>	<b><u>P 687,500,200</u></b>	<b><u>P 400,000,000</u></b>

On July 16, 2018, the Company amended its Articles of Incorporation to increase its authorized capital stock from P50.0 million divided into 50,000 shares with a par value of P1,000 per share to P400.0 million divided into 400,000 shares with a par value of P1,000 per share. The application for increase in authorized capital stock was approved by the SEC on January 22, 2019.

In relation to the Company's application for increase in authorized capital stock in 2018, the Company received deposit for future stock subscription amounting to P100,002,000. Pending approval from SEC for the increase capital stock, the amount received was presented as Deposits for Future Stock Subscription under equity in the 2018 statement of financial position. The amount was subsequently reclassified to capital stock in 2019 upon approval by the SEC of the Company's application.

On July 2, 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. 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.

On August 31, 2021, the Company applied for the registration of its 2,750,000,800 common shares with the SEC which was approved on October 12, 2021. On September 13, 2021, the Company applied for listing of the Company's shares on the PSE. The PSE approved the Company's application for the listing of its common shares on October 18, 2021.

On December 7, 2021, the Company, by way of a primary offering (IPO), sold 550,000,000 of its common stock (Offer Share) at an offer price of P2.30 per Offer Share, and generated gross proceeds of P1,265,000,000 from such IPO, net of IPO expenses amounting to P58,076,037. IPO expenses amounting to P43,428,891 and P14,647,146 were charged to APIC and operating expenses, respectively.

## ***20.2 Retained Earnings***

In a special meeting held on December 12, 2017, the Company's BOD unanimously approved to increase the appropriated retained earnings intended for warehouse expansion to be exercised in 2018 amounting to P300.0 million.

On December 26, 2018, the Company declared cash dividend amounting to P130,000,000 to stockholders from the unappropriated retained earnings. Dividends payables amounting to P4,567,500 and P10,000,000 remained outstanding as of December 31, 2019 and 2018. P5,432,500 was partially paid in 2019 while the remaining P4,567,500 was paid in 2020.

On December 26, 2019, due to the postponement of the warehouse expansion project, the Company reverted the appropriated amount to unappropriated retained earnings available for dividend distribution. On the same date, the Company declared stock dividends out of the Company's unissued capital stock consisting of 286,298 shares with par value of P1,000 per share to existing stockholders as of declaration date.

On June 23, 2021, the Company declared cash dividend amounting to P255,000,000 or P637.50 per share to stockholders of record as of September 30, 2021. The cash dividends were paid on August 18, 2021 and November 9, 2021.

## **21. EARNINGS PER SHARE**

Earnings per share were computed as follows:

	September 30 <u>2022</u>	December 31 <u>2021</u>	December 31 <u>2020</u>
Net profit for the quarter/year	P 111,928,764	P 169,631,500	P 103,063,552
Divided by the weighted average number of outstanding common shares	<u>2,750,000,800</u>	<u>1,895,833,400</u>	<u>1,600,000,000</u>
Basic and diluted earnings per share	<u>P 0.04</u>	<u>P 0.09</u>	<u>P 0.06</u>

The number of weighted average number of outstanding shares for 2020 and 2019 has been adjusted for the stock split that occurred in 2021.

The Company has no potential dilutive common shares as of December 31, 2021, 2020 and 2019.

## **24. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### ***24.1 Carrying Amounts and Fair Values by Category***

The Company's financial assets and financial liabilities carried at amortized cost as presented in the statements of financial position are short-term in nature and are equal to their fair values as at those dates. Because of this, no further comparison of these carrying values and fair values are presented.

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.

### ***24.2 Offsetting of Financial Assets and Financial Liabilities***

Except as discussed in Note 19.1, the Company has not set-off financial instruments in 2021 and 2020 and does not have relevant offsetting arrangements as of the end of the reporting periods. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument will have the option to settle all such amount on a net basis in the event of default of the other party through approval by both parties' BOD and stockholders.

## **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.

## **Results of Operations**

### ***Nine months ended September 30, 2022 compared to nine months ended September 30, 2021***

#### *Revenues*

For the nine months ended September 30, 2022, Medilines Distributors, Inc. (the “Company”) recorded revenues of ₱1,208 million, a 27% increase from revenue of ₱954 million recorded in the nine months ended September 30, 2021. The increase was mainly due to the increase in sales of Cancer Therapy Equipment, Dialysis Machines, Dialysis Consumables, and Diagnostic Imaging Equipment which contributed ₱682 million, ₱122 million, ₱190 million, and ₱213 million

#### *Direct Cost*

The Company’s direct costs for the nine months ended September 30, 2022 was ₱972 million, a 25% increase from direct costs of ₱777 million for the nine months ended September 30, 2021. The increase were mainly attributable to the increase in sales.

#### *Gross Profit*

The Company’s gross profit for the nine months ended September 30, 2022 was ₱235 million, an increase of 33% from gross profit of ₱177 million for the nine months ended September 30, 2021. The Company’s gross profit margin for both the nine months of 2022 and 2021 is 19%.

#### *Operating Expenses*

The Company’s operating expenses for the nine months ended September 30, 2022 was ₱96 million, a 34% increase from the operating expenses of ₱72 million for the nine months ended September 30, 2021.

#### *Operating Profit*

The Company’s operating profit for the nine months ended September 30, 2022 was ₱139 million, a 32% increase from the operating profit of ₱105 million for the nine months ended September 30, 2021. The Company’s operating margin for the nine months ended September 30, 2022 is at 12% compared to the 11% recorded during the nine months ended September 30, 2021.

#### *Other income (charges) – net*

The Company’s other income – net for the nine months ended September 30, 2022 was ₱10 million, a 59% decrease from ₱24 million other income – net for the nine months ended September 30, 2021. The decrease was mainly due to the previous recognition of gain on the sale of real estate properties for the nine months ended September 30, 2021.

#### *Profit (loss) before Tax*

The Company’s profit before tax for the nine months ended September 30, 2022 was ₱149 million, a 15% increase from ₱130 million profit before tax for the nine months ended September 30, 2021.

#### *Tax Expense*



The Company's tax expense for the nine months ended September 30, 2022 was ₱37 million, a 22% increase from ₱30 million tax expense for the nine months ended September 30, 2021. The increase was mainly attributable to the increase in profit before tax.

#### *Net Profit (Loss)*

As a result of the foregoing, the Company's net profit for the nine months ended September 30, 2022 was ₱112 million, a 13% increase from ₱99 million net profit for the nine months ended September 30, 2021. The Company's net profit margin for the nine months ended September 30, 2022 was 9% compared to the net profit margin for the nine months ended September, 2021 of 10%.

Management would like to note that, removing the effect of extra-ordinary income from the sale of real estate property during the nine months ended September 30, 2021, the Company's core income of ₱112 million for the nine months ended September 30, 2022 is an increase of 58% compared to the core income of ₱70 million in the nine months ended September 30, 2021. Core profit margin is at 9% for the nine months ended September 30, 2022 and 7% for the nine months ended September 30, 2021.

### **Financial Position**

#### ***As at September 30, 2022 compared to as at September 30, 2021***

##### *Assets*

##### *Cash*

The Company's cash was at ₱81 million as at September 30, 2022, a 21% increase from ₱67 million cash as at September 30, 2021. As at September 30, 2022, the Company's cash position resulted from the beginning cash for the period December 31, 2021 amounting to ₱931 million, the use of cash in operating activities amounting to ₱422 million, the use of cash in investing activities of 33 million, and the use of cash in financing activities worth ₱395 million.

##### *Trade and other receivables – net*

The Company's trade and other receivables – net was ₱1,789 million as at September 30, 2022, a 2% increase from ₱1,748 million trade and other receivables – net as at September 30, 2021. The increase was mainly due to the Company's increase in sales.

##### *Contract assets*

The Company's contract assets as at September 30, 2022 was ₱1,267 million, an increase of 14% from ₱1,110 million contract assets as at September 30, 2021.

##### *Inventories – net*

The Company's inventories – net was ₱43 million as at September 30, 2022, a decrease of 81% from ₱219 million as at September 30, 2021.

##### *Payments and other current assets*

The Company's prepayments and other current assets was ₱87 million, an increase from prepayments and other current assets of ₱17 million as at September 30, 2021.

#### *Property and equipment – net*

The Company's property and equipment – net was ₱182 million as at September 30, 2022, an increase of 29% from property and equipment – net of ₱141 million as at September 30, 2021.

#### *Right-of-use asset – net*

The Company's right-of-use asset – net as at September 30, 2022 is ₱1 million, a decrease of 72% from ₱4 million right-of-use asset – net as at September 30, 2021.

#### *Guarantee deposits*

The Company's guarantee deposits are ₱2 million as at September 30, 2022 and September 30, 2021. Guarantee deposits are recognized due to the adaptation of the PAS 32 criteria.

#### *Deferred tax assets*

The Company's deferred tax assets are ₱12 million as at September 30, 2022, a 13% decrease from deferred tax assets of ₱14 million as at September 30, 2021.

### **Liabilities**

#### *Trade and other payables*

The Company's trade and other payables as at September 30, 2022 was ₱1,125 million, a decrease of 13% from trade and other payables as at September 30, 2021 of 1,287 million.

#### *Loans and other borrowings – current and noncurrent*

The Company's loans and other borrowings as at September 30, 2022 was ₱280 million, a decrease of 73% from loans and other borrowings of ₱1,038 million as at September 30, 2021. These was mainly attributable to the repayment of loans and other borrowings during the first half of 2022.

#### *Contract liabilities*

The Company's contract liabilities as at September 30, 2022 was ₱10 million, an increase of 173% from contract liabilities of ₱4 million as at September 30, 2021.

#### *Income tax payable*

The Company's income tax payable as at September 30, 2022 was ₱21 million, a 70% decrease from income tax payable of ₱69 million as at September 30, 2021.

#### *Retirement benefit obligation*

The Company's retirement benefit obligation as at September 30, 2022 was ₱2 million, a 71% decrease from retirement benefit obligation of ₱7 million as at September 30, 2021.

## ***Equity***

### ***Capital Stock***

The Company's capital stock increased by 25% from ₱550 million as at September 30, 2021 to ₱688 million as at September 30, 2022 due to the issuance of shares to the public on December 7, 2021.

### ***Additional paid-in capital***

The Company's additional paid in capital increase to ₱1,084 million as at September 30, 2022 due to the issuance of shares to the public on December 7, 2021.

### ***Retained earnings***

The Company's retained earnings as at September 30, 2022 is ₱256 million, a 28% decrease from retained earnings of ₱356 million as at September 30, 2021. The decrease was mainly due to the issuance of cash dividends in the first half of 2022.

## **Liquidity and Capital Resources**

### ***Cash flow from (used in) operating activities***

The Company's cash flow used in operating activities was ₱422 million as at September 30, 2022 compared to the cash flow used in operating activities of ₱255 million as at September 30, 2021. The decrease was mainly due to the increase in trade and other receivables, increase in contract assets, and decrease in trade and other payables.

### ***Cash flow from (used in) investing activities***

The Company's cash flow used in investing activities was ₱33 million as at September 30, 2022 compared to cash flow from investing activities of ₱50 million as at September 30, 2021. The decrease is mainly attributable to the acquisition of property and equipment.

### ***Cash flow from (used in) financing activities***

The Company's cash flow used in financing activities was at ₱395 million as at September 30, 2022 compared to cash flow from financing activities of ₱210 million as at September 30, 2021. The decrease was mainly due to the repayment of loans and payment of cash dividends.

## **OTHER INFORMATION**

There are no material information to be reported by the Company aside from those reported in SEC 17C.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer: Medilines Distributors Incorporated

By:

A handwritten signature in black ink, appearing to read 'Margarita D. Villarico', with a large loop on the left and a vertical line on the right.

**MARGARITA D. VILLARICO**  
Chief Finance Officer