COVER SHEET

SEC Registration Number

C	S	2	0	0	2	5	1	0	6	4

Company Name

MEDILINES DISTRIBUTORS INCORPORATED

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

3rd Floor Vistamall Hub, C.V. Starr Ave., Pamplona Dos, Las Piñas City

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

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
investorrelations@medilines.com.ph	(+632)7747-1076/(+632)8519-2012	-

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
	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
MARIA CARMELA D. OCHOA	mcochoa@medilines.com.ph	8519-1373	9175265192

Contact Person's Address

3rd 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 fiscal year ended **December 31, 2023**

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. **3rd Floor, Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Piñas City**
Address of principal office

8. **(+632)7747-1076/(+632)8519-2012**
Registrant's telephone number, including area code

9. **N/A**
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
Common Shares	**2,750,000,800**

11. Are any or all of these securities listened on the Philippine Stock Exchange?

Yes [x] 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(1)-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 [x] No [ ]

b. Has been subject to such filing requirements for the past 90 days
Yes [x] 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-affiliate is about Php271.1 million , based on the stock price of Medilines Distributors Incorporated as of 31 December 2023.

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PART 1 – BUSINESS AND GENERAL INFORMATION

BUSINESS

Medilines Distributors, Incorporated, incorporated on July 12, 2002, is an essential distributor of critical medical equipment to public and private healthcare facilities across the Philippines – products such as linear accelerators for cancer treatment, dialysis machines for treatment of kidney diseases, and imaging machines such as CT scans, x-rays, and MRI's, from world leading principals such as B. Braun (Germany), Siemens Healthineers (Germany), and Varian (USA). Our portfolio primarily caters to the leading categories of specialized medicine in the Philippines. These categories, in turn, address some of the top causes of mortality among Filipinos – cardiovascular diseases, cancer, chronic obstructive pulmonary disease, diabetes, pneumonia, and tuberculosis.

The Company is focused on three core categories: diagnostics imaging, dialysis, and cancer therapy. These three categories were carefully selected over years of experience to ensure that the company sustains growth over the long term. With the offering of world class products in these categories, the Company has gained the trust of customers in both the private and public health sectors.

The Company's customers are primarily the Philippine Government through the Department of Health and Local Government Units, and private health care facilities such as, among others, hospitals, clinics, and diagnostic centers. As of December 31, 2023, the customer mix, in terms of revenue, are 88% public and 12% private. Public customers include the Department of Health, Philippine General Hospital, City Government of Pasig, and Cotabato Regional Medical Center. The private sector customers include Aljeron Medical Enterprises, Inc.,University of Sto Tomas (UST)- Legaspi, Inc., Binan Doctors Hospital, and Universidad De Sta. Isabel De Naga, Inc..

STRENGTHS AND STRATEGIES

Strengths

Well-position in a large, attractive and growing Philippine healthcare industry

Medilines is strategically positioned in its chosen categories of imaging, dialysis, and cancer therapy. The Company's market dominance positions it to capture the continued growth in the healthcare industry that is driven by a large and aging population, additional investments that are expected to be made in compliance with the Universal Healthcare Law ("UHC Law"), public-private partnership aimed at developing the public healthcare sector, a steady stream of financial aids from international health organizations, the thrust to modernize hospitals and the increase in Philippine Health Insurance Corporation ("PhilHealth") coverage to 100% of the population by 2023 among many other growth drivers.

Majority of additional funding for the Philippine healthcare industry nowadays is aimed at the achievement of the target of the UHC Law which aims to ensure that every Filipino family is within reach of a professional health provider capable of meeting their primary health needs. This is expected to lead to local health facilities being upgraded and public medical equipment being provided and/or modernized, among others. In 2021 alone, UHC Law has an identified source of funding amounting to over ₱209 billion for its implementation.

Meanwhile, according to an independent study conducted by Ken Research, hospital expenditures are expected to reach ₱668.9 billion in 2025 from ₱219.3 billion in 2020, translating to a CAGR of 9.8%. This will drive higher capital expenditures on medical equipment as the number of hospitals in the Philippines is expected to grow from 1,384 as of June 2021 to 1,558 hospitals in 2025. Further, private hospital expenditure is expected to increase as corporate tax reforms (which aim to cut the level of corporate tax from 30% to 20% over 10 years from 2021), the ASEAN Medical Device Directive (which aims to establishing an internationally aligned regulatory system for medical devices, thereby driving up standards for these devices), the continuation of the UHC Law, and other programs come into play in attracting investments from the private sector in the coming years.

In addition to government budgets, a steady stream of financial aid from international health sectors also contribute to the total expenditure in the Philippine healthcare. During the COVID-19 pandemic alone, the Philippines received aid from several countries and territories, including the United States, Singapore, Taiwan, China, and Japan, among others. Aid was given either in cash or in kind, such as personal protective equipment for health workers, face masks, and other medical supplies and equipment.

On rare occasions, such as the COVID-19 pandemic, abrupt growth in demand for healthcare products occur. Demand for the Company's product lineup increased recently as its diagnostic imaging and dialysis equipment are used in the detection and treatment of COVID-19 and related complications.

The Company's market dominance, especially in the fast-growing dialysis and cancer treatment medical equipment segments which are expected to grow by 18% annual until 2025 according to Ken Research, and track record of success in implementing big ticket projects position us to capture the industry's growth.

The Company will continue to leverage its track record of completed projects with the DOH and the on-the-ground presence of its highly skilled sales team to capture the market's growth. Medilines also has access to financial resources that are necessary to operate in capital-intensive industry which will enable the Company to further expand and benefit from the growth of the Philippine healthcare industry.

Broad portfolio of core critical medical equipment to address the need of public and private healthcare facilities across the Philippines.

The Company has a broad portfolio from world renowned brands that are critical in serving the needs of public and private healthcare facilities which allows us to capture larger base of healthcare institutions. The Company's three categories of specialized medicine – diagnostic imaging, dialysis, and cancer therapy – represent some of the categories in healthcare that are experiencing growing demand in the country.

Imaging equipment, such as a CT scan, MRI, and other machines that support early and precise diagnosis, less initiative therapy, and solid aftercare, remains to be necessary capital expenditure ("CAPEX") for hospitals. These are even more vital in the Philippines as its top three causes of mortality include cardiovascular disease, cancer, and pneumonia, all of which can be detected and monitored by these machines. The presence of imaging equipment is required for hospitals applying for a license to operate from the DOH. For university hospitals, an MRI is required to be a certified teaching hospital. The rise in new hospitals and expansions all over the country has cause a growth in the need for imaging equipment, with some major hospitals opting to purchase their second or third equipment.

Meanwhile, the prevalence of dialysis in the Philippines has risen. Chronic kidney disease is the 7^{th} leading cause of death among Filipinos. The growth in kidney diseases is further driven by the increasing prevalence of diabetes in the country, wherein approximately 20% to 30% of people with diabetes develop kidney disease. Moreover, in February 2019, President Rodrigo Duterte signed the Universal Health Care Bill into law, ushering in massive reforms in the Philippine health sector. This includes increasing PhilHealth's dialysis coverage from 90 to 120 sessions per year. Today, the dialysis coverage has been further increased to 144 sessions per year. Since most patients undergo dialysis treatments two to three times a week, this rise in coverage represents almost, if not all, of an average patient's required dialysis treatment in a year. The rise in the number of treatments and the consequent rapid mushrooming of new dialysis centers and expansion of existing centers nationwide have created a boom in demand for dialysis machines and related products in recent years.

Finally, cancer remains to be a national health priority, being the country's third leading cause of morbidity and mortality. The National Cancer Prevention and Control Action Plan ("NCPCAP") of the National Cancer Control Committee ("NCCC") seeks to address this through the establishment of a National Cancer Center and strategic satellite cancer centers all over the country. Today, cancer centers needing linear accelerators are being built in major cities nationwide. Finally, Medilines sought to distribute cancer therapy equipment as cancer remains to be a national health priority, being the country's third leading cause of morbidity and mortality. Investments in equipment and other related infrastructure in the short term for this category will be driven by the NCPCAP 2015 – 2020 of the NCCC. Part of the plan is the establishment of a National Cancer Center and Strategic Satellite Cancer Centers nationwide which would entail significant expenditures on equipment that the Company can bid for.

Strong sales and marketing capabilities with long-standing relationships with key accounts in both the private and public sectors

Medilines' strong sales and marketing capabilities have been relied on by multinational principals since its inception to reach key accounts that they themselves are unable to penetrate due to various reasons including the complexity of the bureaucratic environment. Through the Company's extensive customer relationship in both the private and public sectors of the industry, it is able to help principals navigate the respective procurement processes and to tailor-fit marketing strategies for each account.

Medilines serve the gap in the market by opening to multinational principals highly profitable accounts that they are unable to penetrate for various reasons.

First, Medilines has time-tested familiarity with the public procurement process, added to the fact that Filipino companies are also given preference in the selection of suppliers. The bureaucratic environment in the Philippines can be very complex. Public tenders have numerous legal requirements, which include bidders to submit eligibility documents such as SEC Registration, Mayor's Permit, Tax Clearance, Audited Financial Statement, Net Financial Contracting Capacity ("NFCC"), Single Largest Completed Contracts ("SLCC"), List of Similar Completed Projects ("LSCP"), and other technical and financial documents. By computing for NFCC – computed as [(Current assets minus current liabilities) x (15)] minus the value of all outstanding or uncompleted portions of the projects under ongoing contracts, including awarded contracts yet to be started, coinciding with the contract to bid – the bidding, especially for capital intensive equipment, naturally discourages smaller players. By providing the SLCC, the bidding further discourages companies with no experience of completing large projects from joining. By providing a list of similar completed projects, the bidding furthermore filters out companies with no experience of completing similar projects from joining. In government biddings, track record matters. Medilines has well-tried understanding of the bidding and tender process after years of joining numerous tenders. The Company's long history of delivering on large requirements in won bids has places it in a unique position as one of very few qualified bidders for big ticket projects. Because of these, the Company have become a preferred distributor of all its Principals for government accounts.

Second, Medilines has a better understanding of the market because of the Company's wide network of key opinion leaders and end users in both public and private hospitals. Relationship selling is ingrained in the Company's culture as one of the key ingredients to success. The Company's management and sales team have extensive customer relationships in the Philippine healthcare industry, with the ability to tailor-fit marketing strategies, providing a significant barrier to entry for competitors who will come late into the game.

Third, Medilines has an established widespread geographical footprint. The logistical chains in the Philippines can be complicated considering that the Philippines is one of the world's largest archipelago nations. The presence of various equipment from Medilines all over the country and the continuous after sales services it supports for these devices further strengthen the Company's relationship, increase familiarity, and deepen the Company's expert image with its customers.

All this have resulted to long-standing partnerships with key accounts, Medilines' biggest customer is the DOH as its Health Facilities Enhancement Program ("HFEP") budget remains to be the biggest budget allocation for the purchase of medical devices in the country year on year. The DOH also approves budget for the procurement of equipment directly by DOH hospitals. These hospitals conduct their own bidding. Some of the major customers supplied by the Company in the past three years (2018 – 2020) include government hospitals that are the biggest in their respective areas. The most recent major projects per product line which the Company have won via public tenders include:

1. The supply, delivery, installation, testing, and commissioning of 110 units of brand-new Hemodialysis devices;

2. The supply and delivery of 11 sets of brand-new Linear Accelerators with CT Simulator;

3. The design, build, supply, delivery, installation, and commissioning of 2 sets of Medical Cyclotron and PET CT Scanner and 2 sets of Hybrid SPECT CT System;

4. The supply, delivery, installation, and commissioning of Digital Mobile X-ray Systems; and

5. The procurement of 64 Slices Dual Energy City Scanner Systems.

The Company also have relationships with private hospitals which contribute 12% of Medilines' topline for the year ended December 31, 2023. Medilines' customers in the private sector consists of the biggest tertiary private hospitals or groups of hospitals in the country. The top private customers of Medilines include:

1. Aljeron Medical Enterprises, Inc.
2. University of Sto Tomas (UST)- Legaspi, Inc.
3. Binan Doctors Hospital
4. Universidad De Sta. Isabel De Naga, Inc.

Majority of the Company's top public and private customers have been partners of Medilines since 2015. It was during this time when Medilines just started participating in big projects involving diagnostic imaging and cancer therapy equipment.

Strategic partnerships with principals that are market leaders in their respective categories.

The Company believes that all Filipinos deserve access to healthcare facilities with world-class medical equipment. This drives Medilines to strategically partner with principals that are market leaders in their respective categories.

B. Braun is a German medical and pharmaceutical device company which was founded in 1839 with its headquarters in Melsungen, Germany. B. Braun has more than 5,000 different products for healthcare, around 95% of which are manufactured by the company. B. Braun, through its B. Braun Avitum Division, is one of the world's leading providers of products and services for people with chronic and acute kidney failure. The Avitum Division began its dialysis center operations in the Philippines in June 1989. Since then, B. Braun Avitum has been one of the top and most reliable brand of dialysis supplies and equipment in the country. Their product portfolio in renal care includes dialysis machines and consumables consisting of dialyzers, bloodline systems, concentrates, fluid filter, cannula, and catheter. Medilines has been partners with B. Braun Philippines, distributing their dialysis products and other disposables since the day it was founded in 2002.

Siemens is the world market leader in diagnostic imaging with a 120-year track record of industry firsts and 18,500 patents globally. Siemens' Healthcare Division is now known as Siemens Healthineers, having been rebranded last 2016. Siemens Healthineers is part of Siemens AG, a German multinational conglomerate corporation headquartered in Munich and the largest industrial manufacturing company in Europe. In relation to its partnership with Medilines, the company manufactures equipment in Diagnostic Imaging (CT Scan, Fluoroscopy, MRI, Mammography, and X-Ray), Advanced Therapy (C-Arm, Cathlab, and Robotics), and Molecular Imaging (PET CT and SPECT CT). Medilines has nationwide authorized distributorship of their medical devices in Diagnostic Imaging, Advanced Therapy, and Molecular Imaging. Medilines has been partners with Siemens Philippines since 2016.

Varian Medical Systems is an American radiation oncology treatment and software maker based in Palo Alto, California. It has over 70 years of pioneering history in advanced cancer-fighting tools. Their medical devices including Linear Accelerators and software for treating cancer and other medical conditions with radiotherapy, radiosurgery, proton therapy, and brachytherapy. Medilines has been partners with Varian Medical Systems since 2016, through Varian's partnership with Siemens.

The Company's long-standing relationship with these global industry leaders will continue to strengthen its market position in the medical equipment distribution space in the Philippines.

Established operational expertise in the implementation of highly specialized and high value medical equipment projects.

The Company's operational expertise is developed through knowhow and compliance with regulations, efficiency in logistics chain and effectiveness in sales and marketing.

As part of the healthcare industry, the products and the processes that the Company is engaged in are highly regulated. A Certificate of Product Registration or Certificate of Exemption is required per product. For first time installation of highly specialized equipment like CT Scans, a performance test must be completed with the FDA in attendance. A passing mark is needed for FDA to grant the hospital a License to Operate the machine. The Company's warehouse must possess a fire safety and sanitation permit, among others. The various permits and licenses that players need to secure on top of the general knowledge of the intricacies of the industry becomes a significant barrier to entry to potential competitors.

With products trading on value rather than volume, the Company have designed its business to be as lean as possible with its procurement only being triggered by purchase orders under normal circumstances. The Company also employs a direct-to-site delivery model where procured products are delivered to the client straight from the supplier; moreover, we have centralized business IT system through Microsoft Dynamics 365 Business Central which digitally records and monitors the Company's inventory management processes.

Therefore, the primary concern is on the logistics of bringing the equipment from the local sales offices of principals up to the delivery and installation of the equipment in hospitals nationwide. For deliveries within Metro Manila and nearby provinces, the Company utilizes its own trucks and vans, while for deliveries to Visayas and Mindanao, Medilines partner with trusted third-party logistics providers on a per project basis.

Even though the principals import the products the Company sell, the Company still acquired an importation permit to provide it to be flexible to source additional or alternative products from other countries. The Company is then assisted by a licensed brokerage firm that facilities customs clearance and various importation-related activities. All products are stored in the Company-owned warehouse space in Pasig City. An overflow warehouse is available if needed. The Company's warehouses are compliant with the necessary permits. The Company's trucks and vans deliver smaller third-party items to areas within Metro Manila and nearby provinces. The Company works with third-party logistic providers for deliveries to farther areas on a per project basis. Installation service, warranty, and maintenance are covered by the principals, but are coordinated through Medilines.

The necessary third-party small items that the Company bundles with the equipment as part of the specification of each client are stored and packed in its own warehouse that is strategically located near the origin points of the main equipment. This point is important as the Company's clients purchase products as configured and modified based on their own specific requirements rather than off the shelf. Thus, selling to customers require specialized knowledge and training that are not easily accessible, providing a significant barrier to entry to competitors.

The highly specialized equipment that the Company sell cannot simply be bought off the shelf. To become an effective distributor, one must be equipped with technical and clinical knowledge to be able to market, sell, install, and maintain these products in such a way that is compliant with international standards. For Linear Accelerators, the Company is the only one with this kind of experience. Medilines' team of sales and product specialist are led by business heads who have years-long experience in their respective fields. The Company's team is trained by our principals through live or online workshops and on the field.

Over the years of continued profitability, the Company has been able to build up a substantial war chest that enables it to fund its own projects that are capital-intensive in nature. This is a significant advantage, especially for participating in government projects that typically have long payment periods. Moreover, the year-on-year increase in the Company's working capital becomes a positive feedback loop with the size of the projects that it can participate in.

Demonstrated record of significant growth and profitability

The Company's stable margins are a testament to its ability to maintain a good product mix and to control cost centers. The growth in profit for the past three years is driven by the Dialysis Category, which consists of products in the portfolio with higher margins and sales volume. Meanwhile, the Company has developed an efficient and streamlined supply chain model.

To further establish sustainable revenue and profit growth, the strategy of Medilines includes beefing up resources to sell more products with higher turnover and higher profits, starting with the consumables that complement its equipment, while keeping the Company's operations streamlined and efficient.

Experienced and founder-led management team with extensive knowledge in the Philippine Healthcare Industry

Medilines is composed of an experienced management team, headed by founder and chairman Virgilio B. Villar. He has over 34 years of management experience in the medical industry, having been the Managing Director of B. Braun Medical Supplies, Inc. for 21 years. Since then, Mr. Villar has transformed Medilines to a leading distributor of medical equipment in the Philippines by partnering with world-renowned principals and leading brands in healthcare. Mr. Villar's vast network in the industry, as well as his hands-on knowledge about the medical practices and devices related to Medilines' chosen specialties, are some of the key ingredients to the success of Medilines.

Under Mr. Villar is a team of managers with varying degrees of notable experience in their respective fields. President, Patricia Yambing, has more than 15 years of experience in Sales and Marketing, with over five years of experience in the medical industry as Business Unit Head of Asya Medika. Chief Finance Officer, Maria Carmela Ochoa, has over 18 years of experience in senior finance and auditor positions. General Manager, Daniel Zulueta, has over 18 years of experience in Sales and Operations in Dialysis, having worked in B. Braun Medical Supplies, Inc. for eight years before becoming Operations Manager of the Philippine Renal Care. Business Unit Head for Imaging, Luigi Gamboa, has over 10 years of experience in Sales & Marketing for Imaging from various Companies. Information Technology Manager, Emmanuel Gemzon, has over 20 years of experience in IT – 17 of which are in the medical field.

The Company continues to leverage on its management team's extensive knowledge in the healthcare industry to grow its profitability and further strengthen its market position.

Strategies

Continue to join big ticket projects in both public and private hospitals.

Medilines will continue to utilize its strategic partnership with the DOH, the Company's largest customer, and major hospitals and other medical institutions in the public and private sectors. Medilines believe that the demand from these existing key accounts is poised for further growth primarily on the back of the UHC Law which, in 2021 alone, has an identified source of funding amounting to over ₱209 billion for its further implementation.

Medilines is in a well position to capture the additional CAPEX requirements of the department for this endeavor. In public biddings, the Company will leverage on its existing eligibility requirements as described in RA 9184 Government Procurement Reform Act to its advantage, such as tender specifications, list of completed similar projects, SLC, and NFCC, as only very few players in the industry can meet these requirements.

The Company will also use its established presence and proven experience in government projects to further its sales to private hospital customers. Medilines anticipate an increase in the volume of requirements for these accounts, particularly in imaging, dialysis, and cancer therapy amidst the ongoing pandemic, support by the drive to comply with the ASEAN Medical Device Directive and the cash boost provided by the CREATE law.

Develop customer base in fast-growing and underpenetrated markets across the Philippines.

Medilines will conduct targeted deployment of sales representatives in other major areas in the country where it is not yet present to gain trust and develop relationship with new customers. To utilize its resources efficiently, the Company will focus on geographical areas that are highly urbanized and that have high spending power when it comes to medical equipment such as Baguio, Pampanga, Bacolod, Iloilo, and General Santos.

Factors driving the decentralization of healthcare services include the ongoing establishment of National Cancer Center and Strategic Satellite Cancer Centers nationwide pursuant to the NCPCAP for cancer therapy equipment. Meanwhile, the procurement touchpoints of dialysis machines are expected to widen as mentioned with PhilHealth increasing the approved benefit claims for hemodialysis services from 90 to 120 sessions last 2019, and now up to a maximum of 144 session for CY 2021, which increases the incentive for private firms to invest on putting up dialysis centers.

There are only a handful of medical equipment distributors that have nationwide coverage and is currently limited to urban areas. As of December 31, 2022, there are 1,384 hospitals across the Philippines, most of which are concentrated in Region IV-A (CALABARZON), Central Luzon, and National Capital Region. In the near future, it is anticipated that other regions such as Autonomous Region in Muslim Mindanao, Cordillera Administrative Region, Mindoro, Marinduque, Romblon, Palawan, South Cotabato, Cotabato, Sultan Kudarat, Sarangani, General Santos Region, and CARAGA region will have high growth rate in terms of opening up new hospitals during the period by 2025.

Together with the growing demand for healthcare outside the urban regions, the Company believes these underserved markets provide good opportunity for the Company to broaden its market reach and further deepen its market presence. Medilines will ensure that its products and services would be available in the next growth cities in the same manner that it has established sales representatives and sub-dealers in Metro Manila, Cebu City, Davao City, and Zamboanga City.

Expand into the consumables segment of our core product categories for margin efficiency.

The Company's vision is to become a one-stop shop for its customers by expanding its product portfolio to include products such as consumables and accessories that are used in its core categories. Consumables are low-priced products but offer higher turnover and higher margins compared with its existing line up of medical devices. Gross margin for this segment averages from 40% to 50%, higher than that of the medical equipment segment at 20% to 30%. As these consumables are low-value items, the ideal target market is the large healthcare institutions to sustain larger order volumes. The Company aims to leverage on its long-standing relationships with the public and private healthcare institutions in order to create a cross-selling opportunity with the objective of maximizing revenue from its existing customer base.

With Medilines having a strong presence in the market through the nationwide installation of its equipment during the previous years, a push for product expansion via the consumables related to these same specialized machines becomes clearly obtainable yet highly rewarding; especially since consumables have higher turnover and higher profit margins compared to large-CAPEX machines.

Dialysis alone has over 20 consumables used per dialysis session, most of which are one-time use. Examples of the main consumables used in dialysis are:

- Dialyzer: an artificial kidney usually composed of hollow fiber which is connected to a dialysis machine to eliminate waste products from the blood and remove excess fluids from the bloodstream.

- AV Fistula: a surgically created connection of an artery to a vein. An AV Fistula is how patients are connected to a dialysis machine.

- Fistula Needles: two needles are inserted into the AV Fistula – one to remove the blood and send it to the machines, where it is filtered; the other to return the purified blood back into the body.

- Bloodline Tubing: transports blood throughout the dialysis process.
- Dialysate: the fluid and solutes in a dialysis process used to draw out toxins from the bloodstream.

Some of these consumables are brand-specific or dedicated only to their respective brand of machines, which means that the previously installed machines of Medilines may become an automatic captured market. Moreover, as the Company facilitates the regular maintenance of the machines that we sell, its relationships are continuing with each client even after post-purchase. Medilines will transform this regular communication towards marketing opportunities for its representatives to sell related products.

The other consumables which are universal or not brand specific can then be strategically used to penetrate new markets to capture competitors' market shares. They will provide the runway for future growth as the total size of the medical consumables segment is projected to grow to ₱45.1 billion in 2025, which translates to a CAGR of 8.8%.

Continue to streamline logistic systems.

Medilines will continue to invest in efficiency-enhancing technologies and cost-saving infrastructures to further streamline the Company's logistic processes.

To enhance the design further, the Company believes in the automation of as many elements in the logistics workflow as possible to minimize inefficiencies by reducing manual interference and eliminating human error. The Company is currently implementing various modern tools that can fit into the Company's current system, smart weighing scales that integrate with warehouse management systems and track inventory to barcode systems and to other business process and communication software that provides real-time updates for any aspect of goods movement. The Company has recently adopted an advanced IT system for purchasing, inventory management, and delivery. Medilines will configure its current system to accommodate its foray into the distribution of consumables and accessories.

Finally, since transportation is one major expense in logistics, the Company is carefully assessing investing in provincial warehouse locations where it would be advantageous to do so from a cost perspective. This also takes into consideration the anticipated increase in the volume turnover when the Company increases its volume in consumables. Thus, in selecting areas for warehousing, the Company also factors in which category of consumables business will experience a significant growth and in which geographical areas.

Venture into other high-profit healthcare categories in the long-run

Medilines plans to venture to other growing specialized healthcare markets to position themselves for sustainable growth in the long-term. The Company will further expand in due course in other fast-growing healthcare categories to consolidate its market position. Examples of these promising markets include laboratory and pharmaceuticals, which are huge in terms of size and are steadily growing; and Orthopedics, which is still relatively small in size but is growing rapidly as population ages.

The Philippine population growth, which is expected to grow at a CAGR of 1.2% from 109.9 million in 2020 to 116.6 million in 2025, coupled with an aging population, has driven the increase in healthcare spending. This is expected to continue as the healthcare industry modernizes and expands its capacity. Several initiatives and reforms were already undertaken by the government, such as the passage of the UHC Law and increasing PhilHealth penetration to 100% of the population by 2022, to achieve its objective of creating an inclusive Philippine healthcare system.

Medilines' established market position in the diagnostic, dialysis, and cancer treatment medical equipment segments and track record of success in implementing big ticket projects positions the Company to expand to other high-profit medical device segments. The Company will continue to leverage on its strong relationship with both the private and public healthcare institutions and its on-the-ground presence through its highly skilled sales team. This will be further supported by the Company's strategic partnerships with principals that are market leaders in their respective categories.

As with any business endeavor, Medilines will need to carefully assess the market, timing, and readiness of its resources, among others, before selecting and venturing into other healthcare categories. Nevertheless, the Company believes that its core competencies together with its experience and statutory eligibility would allow it to seamlessly expand.

CORPORATE HISTORY AND MILESTONES

Medilines, Inc. was incorporated on July 12, 2002, as an importation, trading, sales, marketing, and distribution business for all kinds of medical-related goods in the Philippines. The Company started as a distributor of B. Braun surgical instruments and dialysis nationwide. Mr. Villar took over management in 2008.

In 2012, Medilines became the sole distributor of Draeger (Germany) for their Life Support devices, which includes anesthesia machines, ventilators, monitors, and OR lights and pendants. In 2014, the Company became the sole distributor of GE (USA) for their point of care ultrasound. In 2015, the Company became the authorized distributor of Samsung (Korea) for their ultrasound. In 2016, the Company became the authorized distributor of Philips (Netherlands) for their imaging devices, and of Siemens Healthineers (Germany) for their Varian linear accelerators.

For Medilines to establish resource efficiency, the Company decided to focus on only three specialized healthcare categories – Diagnostic Imaging, Cancer Therapy, and Dialysis. Currently, Medilines partners with world-renown leading brands in these categories: Siemens Healthineers for Diagnostic Imaging, Varian for Cancer Therapy, and B. Braun Avitum for Dialysis.

CORPORATE STRUCTURE

Medilines Distributors, Inc. has no affiliate companies. However, founder and Chairman, Mr. Virgilio B. Villar, is also the majority shareholder of Asya Medika, Inc., a company that distributes medical products for the hospital's day-to-day operating room procedures, otherwise known as Life Support machines and consumables. Mr. Virgilio B. Villar is also the beneficial owner of Medpro Medical Supplies, Inc., a company that sells medical supplies and disposables catering to wholesalers only.

BUSINESS OPERATIONS

The nature of Medilines' business operations is in distribution of medical devices to hospitals nationwide. The Company conducts business-to-business local operations. Medilines partners with principals to handle importation, trading, sales, marketing, delivery, installation, and after-sales services in varying degrees per project or per principal.

PRODUCTS AND BRANDS

The Company's portfolio of critical medical equipment primarily caters to the following specialized care segments:

1. Diagnostic imaging;
2. Dialysis; and
3. Cancer Therapy

Diagnostic imaging

Diagnostic imaging describes a variety of non-invasive methods of looking inside the body to help determine the causes of an injury or an illness, and to confirm a diagnosis. It is also used to see how well the body is responding to a treatment for an illness or a fracture. The four most important types of non-communicable diseases are cardiovascular diseases, cancer, chronic respiratory diseases, and diabetes, can be detected and monitored by imaging devices.

The most common types of diagnostic imaging devices include X-ray, CT Scan, MRI, mammography, ultrasound, and PET/CT scan.

The X-ray machine produces a high-energy beam that bones and dense tissue are unable to absorb, but which passes through the rest of the body. This produces an image that allows doctors to see bones and any damage these may have suffered.
The CT scan combines a series of X-ray images taken from different viewpoints. Computer software then creates cross-sectional images (slices) of the bones, soft tissues, and blood vessels inside the body to provide a more complete picture than the regular X-rays. CT scans are often used to quickly examine people who could have internal injuries from some kind of trauma.

MRIs use a very strong magnet, instead of radiation, to get an image of the patient's body.

A mammogram takes images of these "slices" of the breast from different angles. It then uses computer software to reconstruct an image to analyze abnormalities.

Ultrasounds are more popularly known for examining a fetus during pregnancy, but it is used for a variety of diagnostic purposes. These include pediatric, vascular, and testicular cases. Ultrasounds use sound waves, instead of radiation, which reflect off tissues in the body to create an image.

PET/CT scans use tracers that are injected into the vein to highlight the flow of fluids in the body. This shows doctors how well the organs and tissues operate. PET/CT scans are often used to measure blood flow, oxygen use, and sugar use.

Thanks to diagnostic imaging, many illnesses can be diagnosed faster than ever before. Today, diagnostic imaging devices are used heavily in the fight against COVID-19 by helping with the early detection of possible complications due to the disease and by providing our frontliners with a better understanding of the patient's condition for proper treatment.

Dialysis

When kidneys are damaged, and if the damage continues to get worse such that the kidneys are less and less able to keep a balance of water and minerals in the body, chronic kidney disease is developed. Kidney failure is the last and most severe stage of chronic kidney disease, also called end-stage renal disease ("ESRD"). In most cases, kidney failure is caused by other health problems that have done permanent damage to the kidneys little by little over time. Diabetes is the most common cause of ESRD, followed by high blood pressure. Other problems that can cause kidney failure include autoimmune diseases, such as lupus, genetic diseases such as polycystic kidney disease, nephrotic syndrome, and urinary tract problems. When kidneys fail, it means they have stopped working well enough for the patient to survive without dialysis or a kidney transplant. Kidney failure has become one of the leading causes of hospitalization and the tenth leading cause of mortality in the country. This is driven by the growth in incidences of diabetes, which is the sixth leading cause of death among Filipinos.

Dialysis is a treatment where a machine is used to replace a kidney after a kidney failure. When kidneys fail, dialysis keeps the body in balance by removing waste, salt, and extra water to prevent them from building up in the body; keeping a safe level of certain chemicals in the blood, such as potassium, sodium, and bicarbonate; and helping to control blood pressure. During the dialysis process, the blood is purified using a dialysis machine and a special filter called a dialyzer or an artificial kidney. To get one's blood into the dialyzer and back, an access is made into the blood vessels, usually through a minor surgery in the arm. During the COVID-19 pandemic, there was an urgent demand for additional dialysis machines as an estimate of 30% of hospitalized COVID-19 patients develop moderate or severe kidney injury. There have been reports of nonelderly adults infected with COVID-19 who have developed a sudden loss of kidney function even without any underlying or pre-existing kidney diseases.

Cancer therapy

Cancer is among the leading causes of morbidity worldwide, with approximately 14 million new cases and 8.2 million cancer related deaths in 2012 according to the WHO and is expected that annual cancer cases will rise from

14 million in 2012 to 22 million within the next two decades. In the Philippines, cancer is the third leading cause of morbidity and mortality. 189 of over 100,000 Filipinos are afflicted with cancer while four Filipinos die of cancer every hour, according to a study conducted by the University of the Philippines' Institute of Human Genetics, National Institute of Health. Among Filipino men, the six most common sites of cancer diagnosed in 2010 (Globocan) were lung, liver, colon/rectum, prostate, stomach, and leukemia. Among Filipino women, the six most common sites diagnosed were breast, cervix, lung, colon/rectum, ovary, and liver. Cancer is one of four epidemic non-communicable diseases ("NCDs") or lifestyle-related diseases, which include cardiovascular diseases, diabetes mellitus, and chronic respiratory diseases. NCDs share common risk factors, such as tobacco use, unhealthy diet, insufficient physical activity and the harmful use of alcohol.

Cancer therapy involves advanced radiotherapy, radiosurgery, and many other vital cancer-fighting tools, one of which is the linear particle accelerator (often shorted to linac). Medical linacs generate X-rays and high energy electrons used in radiation therapy by subjecting them to a series of oscillating electric potentials along a linear beamline. A linac customizes high energy x-rays or electrons to conform to a tumor's shape and destroy cancer cells while sparing surrounding normal tissue. Electrons or X-rays can be used to treat both benign and malignant diseases. Linac produces a reliable, flexible, and accurate radiation beam; but the treatment room still requires considerable shielding of the walls, doors, ceiling etc. to prevent escape of scattered radiation.

Below is a table presenting a selection of the Company's major products:

Type of Specialized Medical Equipment	**Product Brands**	**Description**
Diagnostic Imaging	Siemens Healthineers CT Scan *SOMATOM go Now*	SOMATOM go Now makes high-quality care accessible and helps run a successful CT business – allowing the hospital to keep an eye on profitability and stay competitive. It comes with workflow and usability innovations that improve efficiency independent of the individual user's level of experience. It delivers great results for routine scanning. The service model is completely redesigned combined with an innovative workplace design that helps to reduce costs.
	Siemens Healthineers CT Scan *SOMATOM go Top*	SOMATOM go. Top confidently offers advanced CT procedures, including TwinBeam Dual Energy 3. With patient-centric technologies and workflows to optimally adapt to each type of patient, all technologists can turn challenging fields into routine – and serve the full clinical spectrum.
Dialysis	B. Braun Hemodialysis Machine *Dialog+®*	The Dialog+® sets standards with its three basic device configurations for extracorporeal blood treatment. The system is designed for the global requirements of patients, physicians, and nursing staff. The integrated and efficient treatment system permits users to have the greatest number of possible configurations in setting up the individual dialysis device. The new generation of the Dialog+ demonstrates numerous comfort improvements for providers and patients. It also rigorously meets today's economic and medical needs. Options, accessories, and consumables from one partner offer customers a single treatment system that fits together perfectly. A challenging medical technology of superb quality is combined with intelligent components, with one consistent common denominator: optimal treatment quality for the patients.
	B. Braun Dialyzer *Dacap Pro®*	Dicap Pro® performs efficiently with improved polysulfone membrane that provides high uremic-toxin elimination, which enables patients to efficiently achieve their HD targets. It also promotes user-friendly handling as it removes air efficiently with only 300 ml priming volume. New easy-to-open packaging and

		improved plugs help nurses to prepare and perform treatments easily and efficiently.
Cancer Therapy	Varian Linear Accelerator *VitalBeam®*	VitalBeam® can be configured with up to 3 photon and 6 electron energies to help treat a wide range of patients. It has a sophisticated control system that orchestrates dose, motion, and imaging to deliver fast, efficient treatment every day. VitalBeam integrates with the ARIA® oncology information system and the Eclipse™ treatment planning system to simplify planning and treatment delivery. VitalBeam® offers visual cues and other features designed to help deliver the best care possible. Safety is built into the system. Accuracy checks are performed every 10 minutes during treatment, and automated features help stop issues before they arise. Machine Performance Check (MPC) helps perform fast daily system testing – usually in less than five minutes.

Below is a summary of the revenues of the Company based on the major product segments:

	For the years ended December 31,					
	2023		**2022**		**2021**	
	Amount	%	Amount	%	Amount	%
Revenues (₱ millions)	679.88		1,964.80		1,585.03	
Revenue contribution per segment						
Diagnostics	69.04	3.51%	318.64	16.22%	290.41	18.32%
Dialysis	483.58	24.61%	478.85	24.37%	347.63	21.93%
Cancer Therapy	125.06	6.37%	1,153.60	58.71%	926.12	58.43%
Others	2.20	0.11%	13.72	0.70%	20.87	1.32%
Total	679.88	34.60%	1,964.80	100.00%	1,585.03	100.00%

CUSTOMERS

Medilines' customers include public and private hospitals and medical institutions nationwide, and entities that purchase for or on behalf of these hospitals and medical institutions, like the local government units, DOH, Philippine International Trading Corporation, Department of Budget and Management ("DBM"), and donors, among others. The Company caters to the radiotherapy department, renal centers, and promotes to key opinion leaders, which include radiotherapists, radiation oncologists, physicist, radiation technologists, and nephrologists. As of December 31, 2023, 88% of the Company's customers are government accounts, while 12% are private.

Government accounts include the Department of Health and related government entities, DOH hospitals, and local government units. Medilines' biggest customer is the DOH as its HFEP budget remains to be the biggest budget allocation for the purchase of medical devices in the country year on year. The DOH conducts centralized purchasing of equipment for major government hospitals in key cities nationwide. The DOH also approves budget for the procurement of equipment directly by DOH hospitals. These hospitals conduct their own bidding. Some of the major customers supplied by Medilines in the past three years (2020 to 2023) include government hospitals that are the biggest in their respective areas, which include Cotabato, Davao, Zamboanga, and Cebu.

All of Medilines' government projects were won through public bidding. Qualifying for a government tender is determined by the eligibility documents which include SEC Registration, Mayor's Permit, Tax Clearance, Audited Financial Statement, NFCC, SLCC, List of Similar Completed Projects, and other technical and financial documents. Regular government procurement process must undergo pre-procurement conference, publication, pre-bid conference, clarification period, and submission of bids. The contract is finally awarded to the bidder with the Lowest Calculated Responsive Bid or Single Calculated Responsive Bid. If a bidder is awarded the contract, the bidder must comply with the delivery schedule to compete the implementation, completion, and acceptance of the project. A project is fully completed upon acceptance wherein payment can already be executed. In cases of emergency like the COVID-19 pandemic, the government may opt to utilize negotiated procurement through

Request for Quotation from selected suppliers who are capable of supplying the said government requirement in the shortest period of time. These complexities in the government procurement process gives Medilines advantage and an opportunity to lessen competition. Medilines is one of few distributors who can comply with the NFCC, SLCC, and List of Similar Completed Projects required to be eligible to bid for dialysis, cancer, and diagnostic imaging equipment.

Below is a summary of the selected major Public/Government contracts that the Company has completed the past 7 years:

Customer	Product Brands Purchased	Contract Size ₱ millions	Year Completed
East Avenue Medical Center	Various Medical Equipment	100.60	2016
Cotabato Regional Medical Center	Various Diagnostic Imaging Equipment	99.00	2016
Lung Center of the Philippines	Cancer Therapy Equipment	199.00	2017
Department of Health	Various Diagnostic Imaging Euipment for Baguio and Davao	393.80	2018
Department of Health	Various Diganostic Imaging Equipment for Luzon	393.80	2019

On the other hand, private accounts, include private groups of hospitals, single privately-owned hospitals, diagnostic centers, dialysis centers, cancer centers, clinics, and other private companies who purchase medical products either for reselling, rental, or donation to hospitals. Medilines caters to a select few private hospitals, specifically those that have good financial standing and/or are specializing or rebranding into a specialty center for dialysis or cancer.

Below is a summary of the selected major private contract that the Company has completed the past 3 years:

Customer	Product Brands Purchased	Contract Size ₱ millions	Year Completed
Medspecs Solutions, Inc.	CT Scan	15.00	2019
Ortigas Hospital and Healthcare Center, Inc.	Various Diagnostic Imaging Equipment	39.50	2019
Lanang Premier Doctors Hospital	Various Diagnostic Imaging Equipment	240.10	2020

The Company's top 5 customers for the calendar year December 31, 2023, are as follows:

Ranking	Customer	% of Revenue
1	Department of Health	35%
2	Aljeron Medical Enterprises, Inc.	10%
3	City of Manila	13%
4	Cotabato Regional and Medical Center	8%
5	City Government of Pasig	3%
	Total	**70%**

Majority of the Company's sales are with government accounts. Having said this, all government hospitals go through several routes of procurement. The first is via the DOH, who allots the annual budget and either (1) does a centralized purchase for several government hospitals, or (2) distributes the budget so that procurement is done by respective government hospitals individually. The second is via PITC or PSDBM who may hold bidding on behalf of the DOH. Third, local government units may also allocate and release funds for their respective provincial hospitals. When DOH, PITC, PSDBM or any local government units does its centralized purchases, they can easily register as the Company's top and biggest customer during that time based solely on the volume of their procurement from just one or few purchase orders.

SUPPLIERS

The Company's suppliers are from multinational medical device companies, who import these to the Philippines. The Company's top suppliers include its major principals B. Braun Avitum Philippines, Siemens Healthcare Philippines, and Varian medical Systems Philippines. Siemens Healthcare (Germany) is one of the top medical imaging companies in the world, with over 120 years of experience in the medical field and 18,500 patents globally. B. Braun (Germany) is one of the world's leading providers of extracorporeal blood treatment and have been a reliable partner and provider of renal care products and services in the Philippines since 1989, when its Avitum division began its dialysis center operations. Varian (USA) has a pioneering history of advancing radiotherapy, radiosurgery, and many other vital cancer-fighting tools since 1937. Medilines has an authorized distribution agreement with these principals. Majority of the Company's coverage includes government accounts. The Company may be given authority to cover some private accounts on a project funnel basis, which lists criteria for awarding projects including first to identify the project and project winnability.

Our principal suppliers are selected based on several key factors which include (1) the company or brand's fit to our strategy, (2) the size of the demand for their products in the Philippine market, (3) the principal's image and reputation in the healthcare industry, (4) the agreed upon authorized are of distribution, and (5) the support they guarantee to give to Medilines including regulatory, importation, marketing, training, installation support, after sales service, and ideal payment terms.

The Company's working relationship with its principals has been tested by time. B. Braun Avitum is the Company's first principal and has been its partner since the company's founding day. Siemens Healthcare has been the Company's partner since 2016 and has helped fuel its growth in the Diagnostic Imaging Equipment Market. Siemens Healthcare, through its regional partnership with Varian Medical Systems, has also been a Principal supplier of Varian linear accelerators since 2016. Medilines' principals manage the importation, processing of all major regulatory requirements, marketing programs, shipment of products direct to customer, installation, training, preventive maintenance, and after sales services. The established operations of the principals in the Philippines enabled Medilines' operations to be lean and efficient. Payment terms are usually via letter of credit and can vary 30 days to 120 days, depending on the type, volume, and complexity of the project.

After the Principals, the other types of suppliers Medilines' work with include suppliers of consumables and accessories related to the Company's equipment, suppliers of supplies and services related to infrastructure projects, and suppliers of third-party items that are packaged with Medilines' projects. Selection of these suppliers depends first and foremost on whether the Company need to adhere to brand, or technical specifications required by the project. For generic requirements, at least 3 suppliers are considered according to price, quality, technical specification, and delivery lead time. Discounts and favorable payment terms are often negotiated for bulk orders. Most of Medilines' third-party suppliers have an open payment term of 30 – 90 days ad require downpayment depending on the size of the project.

The Company relies on third-party suppliers only in a limited capacity. Eighty-seven percent (89%) of the Company's total procurement in 2023 came from the major principals.

Below is a selection of the Company's major partners:

No.	Name of Supplier	Product Brands	Length of Relationship
1	Siemens Healthcare, Inc.	*Diagnostic Imaging:* CT Scan, MRI, Fluoroscopy, Mammography, Xray, C-Arm, Cath Labs, PET CT, SPECT CT *Cancer Therapy:* Varian Linear Accelerator	Since 2016
2	B. Braun Avitum Philippines, Inc.	*Renal Care:* Dialysis Machines, Dialyzers, Other Consumables	Since 2002
3	RC Prime Enterprises	Supplier of Dialysis Support Equipment	Since 2017
4	Eastar Electrical Engineering Services	Supplier of Renovation / Construction	Since 2017
5	Medequal Systems and Suppliers, Inc.	Supplier of Imaging Accessories	Since 2018

Below are the top 5 suppliers of the Company:

No	Supplier	Amount (In Million Php)
1	B. Braun Avitum Philippines, Inc.	269.66
2	Varian Medical Systems Philippines, Inc.	56.45
3	Rc Prime Industries Inc.	25.71
4	Siemens Healthcare Inc	15.32
5	Red Power Elec. Supply & Dev. Services Corp.	10.30

SALES AND MARKETING

The Sales and Marketing Team of Medilines is headed by the Company's General Manager, Daniel Zulueta. Daniel has over 20 years of experience in sales and operations in dialysis, having worked in B. Braun Medical Suppliers, Inc. for eight years in sales before becoming Operations Manager of the Philippine Renal Care. Under the General Manager are the Business Unit Heads of each product category (except for Cancer Therapy which is headed directly by the General Manager). Some of the major roles of the General Manager and the Business Unit Heads include collaboration and negotiations with principals, management of relationships with key customers, and ensuring both sales and profit targets. Under each Business Unit Head are Sales and Product representatives. Sales Managers and Sales Representatives are distributed in key geographical areas and are responsible for lead generation, PR with customers, price and terms negotiations, bidding requirements, project coordination, and payment coordination. Product Manager or Application Specialists are well-versed with each product's parts, functions, benefits, and other clinical applications, and lead the product demonstrations and trainings for both the Company's sales team and the customers. Since most of Medilines' products involve very large, specialized equipment, product demonstrations are usually conducted in hospitals with existing machine installations. Across the 3 divisions, only the Dialysis Division has a Technical Services Manager. The Technical Services Manager coordinates with the customer, the sales team, and the principal for after sales service concerns. Lastly, the Projects Team directly reports under the General Manager and encompasses all 3 divisions. The Project Manager and Project Officers assist in all infrastructure projects – either renovation, retrofit or construction – depending on the scope of the contract when it comes to site preparation.

Outside the Sales Group are the partner sub-dealers which represent the company and the principals on a per project basis. Medilines use sub-dealers depending on factors such as project winnability and logistical considerations. The Company choose to work with a certain sub-dealer after performing due diligence on their business permits and other official documents, ability to pay, and payment habits, and reputation in the industry.

Medilines has very minimal brand or product-related advertising and promotion, as these are integrated in the principals' marketing strategies, which may be spearheaded by either their local or regional office. Medilines collaborates with the principal in conventions, exhibitions, and workshops to help promote the products. The Company have its own relationship-building programs, which include meal representations and sponsorships to medical conventions and clinical trainings in the Philippines and abroad, related to the customer's respective specialties.

The Company believes that the strength in its sales and marketing lies on (1) good relationship with key opinion leaders and end-users, reinforced by the reliability of the services offered to them, (2) the brand image and state-of-the-art technology of the principals and how the Company can promote value for money for these equipment, (3) the Company's ability to negotiate with both its principals and its customers to provide the best deal for all stakeholders.

INVENTORY MANAGEMENT

Medilines believes that its inventory management is efficient as most of the Company's equipment are delivered from the principal directly to the site. The inventories the Company manages are comprised of relatively smaller third-party items that are sold with the equipment as a package. These items should be completed before delivery to the site.

The Company manages its inventory in several ways. First, procurement is usually triggered by purchase orders. The company abides by the rules of "No P.O., No Purchase" under normal circumstances. Second, an Inventory Review is conducted every month where inventory shelf life and aging are discussed to form action plans. Action plans include inventory keeping, moveout, donation, sale, or scrapping. Third, the Company conducts a monthly internal inventory count and a semi-annual wall-to-wall inventory count with auditors and accounting officers. Fourth, the Company conducts quality checks and run tests upon receipt of the items. Fifth, the central business IT system, Microsoft Dynamics 365 Business Central, digitally records and monitors the Company's inventory management processes. Finally, the Company have several inventory insurances in place that help protect the Company from further risks. The Company has stock throughput insurance, which covers transfer and storage of goods.

INFORMATION TECHNOLOGY SYSTEMS

Medilines uses Microsoft Dynamics 365 Business Central. It is a robust yet flexible business management solutions from Microsoft, tightly integrated with the Office 365 suite of products and built to be deployed on cloud or on premises. The core capabilities of Microsoft Dynamics 365 Business Central are Financial Management, Sales & Service Management, Project Management, Supply Chain Management, Operations Management, and Reporting and Analytics. The database of Microsoft Dynamics 365 Business Central is stored on Microsoft Azure Cloud for scalability, accessibility, and security.

The other software programs which the company uses include Windows Servers, Windows 10 Professional, and Eset Endpoint Security for data security.

Office hardware include servers, laptops, routers, switches, wireless access points, Palo Alto firewall, projectors, and printers.

CASH MANAGEMENT AND INTERNAL CONTROL

The Company finances its operations through profits and bank loans. It has substantial open credit lines with major banks to finance all its regular and capital-intensive sales projects. Medilines places high priority in payment collection evidenced by its bi-monthly Accounts Receivable alignment meetings, weekly cash flow updates, and expanded Credit and Collection Team.

In day-to-day operations, all of Medilines' collections are through checks and bank transfers. Cash collection has a maximum limit of five thousand pesos. Petty cash fund is maintained for minor expenses like notary, transportation, and suppliers. All disbursements are made through checks and online payments.

The Company's ability to manage its cash flow is crucial in the public bidding process as eligibility documents include Audited Financial Statement, Net Financial Contracting Capacity – Computed as (Current assets minus current liabilities x 15 (minus the value of all outstanding or uncompleted portions of the projects under ongoing contracts, including awarded contracts yet to be started, coinciding with the contract to bid, and SLCC. All these eligibility documents ensure a bidder's capacity to pay.

Meanwhile, Medilines has programs and policies in place to help control costs. The Company maintains a system of internal account controls wherein access to assets is permitted only in accordance with management's authorization. The Company also keep its operations streamlined and its inventories low.

All transactions are properly recorded in the Microsoft Dynamics 365 Business Central to enable preparation of financial statement in accordance with PFRS or like criteria, and to maintain accountability for assets.

COMPETITION

In terms of product offerings and pricing, Medilines have identified the industry's major players to include Fernando Medical Enterprises, Inc. (purchased by IDS Medical Systems Philippines, Inc.), Cosmo Medical Inc., Corbridge Philippines, 99 Commercial Inc., RTK Marketing Inc., Technomed International Inc., NPK Medical Trading Inc., Biosyn Healthcare Systems Inc., Himex Corporation, Shimadzu Philippine Corporation, Biosite Medical Instruments Inc., Medicotek Trading (United Imaging), Sunfu Solutions Inc., Felea Biomed Enterprises, and Variance Trading Corporation.

Nonetheless, the Company believes that they are well positioned to compete given its competitive advantages including, among others, the Company's good reputation in the industry and association with top quality products, its partnership with well-renowned leading brands in the Company's product categories, its years of relationship with major hospitals in the country, and a management team with wealth of experience in Medilines' field.

HUMAN RESOURCES

As of December 31, 2023, the Company has employees broken down by function as follows:

Function	Number of Employees
Executive	7
Managerial	8
Supervisory	2
General Staff	36
TOTAL	**53**

In addition to regular employees, the Company engages with third-party manpower service providers (security and manpower agencies) to support the personnel requirements of the business.

Significant Employee

While the Company values the contribution of each of its executive and non-executive employees, it believes there is a no non-executive employee that the resignation or loss of whom would have a material adverse impact on the business of the Company. Other than standard employment contracts, there are no special arrangements with non-executive employees of the Company.

As of the date of this report, the Company does not have an employee stock option plan.

INTELLECTUAL PROPERTY

As of the date of this report, the Company has registered intellectual property with the Philippine Intellectual Property Office. This trademark is important because name recognition and exclusivity of use are contributing factors to the Company's success.

In November 5, 2021, the Philippine Intellectual Property Office has issued a Certificate of Registration of the trademark "Medilines" (as seen below) informing the Company that the trademark application has been allowed and approved. Said registration is valid until November 5, 2031 (10 years).

As of the date of this report, the Company has no other trademarks registered or pending registration with the Intellectual Property Office.

Under the Intellectual Property Code of the Philippines, the rights to a trademark are acquired through the registration with the Bureau of Trademarks of the Intellectual Property Office, which is the principal government agency involved in the registration of brand names, trademarks, patents, and other registrable intellectual property materials.

INSURANCE

The Company obtains and maintains appropriate insurance coverage on its properties, assets, and operations in such amounts and covering such risks are usually carried by companies engaged in similar businesses and using similar properties in the same geographical areas as those in which we operate. The Company maintains insurance policies covering the following risks: fire and lightning, earthquakes, typhoons, floods, riot/strike, malicious damage, robbery and burglary. The Company's insurance providers are large domestic insurers.

MATERIAL CONTRACTS

Medilines' material contracts include the lease contracts identified below. Big projects include two material contracts with the Philippine International Trading Corporation (PITC), one for the supply, delivery, installation, testing, and commissioning of brand-new linear accelerators, and another for 10 units of brand-new computed tomography scanner (CT scan); and 3 material contracts with DBM with all three contracts comprising of the supply and delivery of a cumulative of 11 brand new linear accelerators with CT simulator and accessories. Property contracts include the titles of the Company's office condominium, two land titles of lands in Muntinlupa City and Pasig City, and the lease contract of its current warehouse.

As of the date of the report, the Company owns land and one condominium unit and have no ongoing process for the acquisition of any property.

No	Name	Location	Gross Lot Area
1	Medilines Warehouse	Kamagong St., Bagong Ilog, Pasig City	1,282 sqm
2	Lot in Victoria Homes	Lot 7 Block 1 A Don Pedro Reyes Ave., Victoria Homes, Tunasan, Muntinlupa City	475 sqm
3	Commercial Condominium for Office	Unit 1705 25th St., One Global Place, Bonifacio Global City, Taguig City	

EFFECT OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS

The Company is subject to the laws governing all Philippine corporation, such as corporation law, securities law, tax laws, and the Local Government Code. All Philippine corporation are also subject to labor laws and social legislation, including RA No. 11199 or the Social Security Act of 2018, RA No. 10606 or the National Health Insurance Act of 2013 RA No. 11223 or the Universal Health Care Act, RA. No. 9679 or the Home Development Mutual Fund Law of 2009, the Philippine Labor Code and its implementing rules and regulations, and other labor-related laws, regulations, and mandated work-related programs of DOLE.

The Company closely monitors its compliance with applicable laws and government regulations affecting its businesses.

RISKS RELATING TO THE BUSINESS

The COVID-19 global pandemic has had and is expected to continue to have an effect on the Company's business and results of operations.

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization. The Government has taken measures in varying degrees across the Philippines to contain the spread of the virus, including social distancing measures, community quarantine, suspension of operations of non-essential businesses and travel restrictions.

As of the date of this report, Metro Manila has already eased restrictions as things start getting back to normal.

However, with the recent learnings about COVID-19, the pandemic has shed more light on the importance of widespread access, good capacity, and modernization of hospitals. As a result of the COVID-19 pandemic, the Company has maximized the resulting opportunities despite the quarantine restrictions. The Company has supported the government's response to COVID-19 through urgent nationwide distribution of COVID-19 related machines such as CT scan machines and x-ray machines. These machines help in the early detection of possible complications due to COVID-19 and aid doctors in having a better understanding of a COVID-19 patient's condition for proper treatment. The demand for the installation of Dialysis machines and Portable Reverse Osmosis machines in Intensive Care Units has increased at an estimate of 30% of patients hospitalized with COVID-19 develop moderate or severe kidney injury. In addition, the goal of expanding the Company's portfolio via the consumables related to these devices is expected to even grow the business despite the negative economic effects of the pandemic on other businesses.

Moreover, due to the logistical restrictions brough about by the pandemic, some project installations (especially those with infrastructure components) were suspended and some importations were delayed, resulting in delayed payments.

Apart from the direct adverse impact on its business, the COVID-19 pandemic has also (i) disrupted the operations of suppliers and principals; (ii) disrupted the supply chain of materials, facilities, and other products, and caused delays in imports through the effects of travel restrictions, quarantines, closure of factories and facilities; (iii) suspensions of project installations; (iv) increase volatility or cause disruption of global financial markets, and affected businesses' capabilities of accessing capital markets and other funding resources on favorable or acceptable terms; and (v) resulted in social, political, and economic instability. As the situation evolves, these indirect impacts may become more significant and could also have a severe adverse impact on the Company's results of operations and cash flow. To preserve the Company's operations and liquidity, the Company has implemented appropriate measures such as: (1) focus on payment collection; (2) reduction in unnecessary operations costs on a case-to-case basis; (3) continuous negotiations with suppliers on prices and payment terms; (4) negotiation of fixed rates for material procurements; (5) continued promotion of covid-related products and shift of product mix towards products with high profit and high turnover (like dialysis), and (6) focus on accounts whose payments are secured such as government accounts and major groups of private hospitals.

The Company may not be successful in implementing its growth strategy, including plans to expand its offerings, and it may not be able to manage future growth efficiently.

The Company intends to increase its revenues through, among others, expanding its product network by broadening its product offering. The Company's expansion activities may be financed by a combination of equity and additional borrowings. A significant part of its growth strategy entails finding hospitals in high-yielding areas of the Philippines, including areas where it does not currently have presence.

The Company plans and strategies are as of the date of this report and are subject to various factors affecting its ability to implement its growth strategy, including, among other:

- Market conditions, the general state of the Philippine economy, global economic conditions, and regulatory environment;
- Its ability to identify new hospitals and medical institutions as customers;
- Its ability to obtain required permits and licenses and meet regulatory requirements to sell new machines;
- Its ability to bear the increase in logistic costs when regional expansion occurs;
- Its ability to obtain financing and other support for expansion;
- Its ability to maintain the scale and stability of its information technology systems to support its current operations and continuous business growth;
- The hiring, training, and retention of skilled personnel;
- The effective management of inventory to meet the needs of its customers on a timely basis;
- Its operating performance and the availability of sufficient levels of cash flow or necessary financing to support expansion; and
- Its ability to successfully address competitive merchandising, distribution, and other challenges encountered in connection with expansion into new geographic areas and markets.

The Company may experience delays in expanding the range of product offerings withing the time frames it initially targeted. Any of the above factors or other similar challenges could delay or prevent it from installations and its product network expansion plan. If the Company fails to successfully implement its growth strategy due to the absence of, or its inability to carry out or sufficiently address, any of the above-mentioned factors, or otherwise, its business, financial condition, and results of operations may be materially and adversely affected.

Expansion into new geographical areas with high population and steady growth, as well as high investments in the medical field will expose the Company to additional operational, logistical, and other risks and there is no assurance that this will be successful or profitable. For example, if the Company experience significant future growth, it may not only be required to make additional investments in its platform but will also have to expand its relationships with various suppliers and other third parties it does business with and to expend time and effort to integrate new suppliers and other third parties into its operations. The expansion of the Company's business could exceed the capacities of its suppliers and third parties willing to do business and if they are unable to keep up with the Company's growth, its operations, including its inventory levels, could be adversely affected. Moreover, the Company's proposed expansion will also place increased demands on its managerial, operational, financial, and administrative resources. There is no guarantee that it will be able to hire the required number of employees to expand its business in a timely manner and on acceptable terms. Any difficulties the Company experience with respect to developing its business operations in new geographical areas may materially and adversely affect its business, financial condition, and results of operations.

In addition, if the Company was unable to successfully manage the potential difficulties associated with expansion of product offerings, it may not be able to capture the scale efficiencies that it expects from expansion. If it was unable to continue to capture scale efficiencies, it may not be able to achieve its goals with respect to operating margins.

An ability to manage future growth efficiently could have a material adverse effect on the business, financial condition, cash flows, results of operations, and prospects.

The Company believes that its identified growth strategies are the next logical steps in expansion. Because of the Company's experience with various device installations, providing essential consumables and support for these devices are attainable without many complexities. Expanding the product portfolio into the consumables related to its current machine product lines means that the Company will primarily upsell to existing customers while using the sales and marketing structure that is already in place. Meanwhile, expanding into geographical areas that will give the Company high yields means that it will primarily invest in additional manpower for pre-selected areas before investing in any other resource. The Company believes that this step-by-step approach will ensure responsible use of its resources and avoid overwhelming current capacities. It will also ensure that it will have the proper structures in place before diving into further expansion.

The Company have the right people in place for its growth plans, with competent managers with years of experience in their specialized fields who can tap the right network to support its expansion. Currently, the company is already tapping into this wealth of network by hiring additional sales representatives and connecting with new sub-dealers and logistic partners and new principals from related medical fields.

Demand for the Company's products and services may be impacted by changes in the economy and industry trends such as product development and technological advances. Strong competition could negatively affect prices and demand for its products and services and could decrease its market share.

The medical device industry in the Philippines is very competitive. The Company competes with various companies selling medical equipment falling under the same product categories that it offers based on factors such as price, quality, and brand recognition, or combination of these factors. Moreover, the Company anticipates competition from new market entrants and joint partnerships between national and international operators. Intense competitive pressures, including those arising from its expansion strategy or its inability to adapt effectively and quickly to a changing competitive landscape could affect tis prices, its margins, or demand for its products and services.

In addition, some of the competitors are also aggressively expanding their product offerings. Some of these competitors may have been in business longer or may have greater financial, distribution or marketing resources, and may be able to devote greater resources to sourcing, promoting, and selling their products. There can be no assurance that the Company will be able to complete successfully against current competitors or new entrants. Expansion outside the areas where the customers are located exposes the Company to operational, logistical, and other risks of doing business in new territories. Moreover, the Company may experience difficulty in building the "Medilines" brand name in these new areas as some of these competitors may have been in the area for a long time. Operationally, the Company may experience supply, distribution, and transportation and/or inventory management issues due to the underdevelopment of distribution networks. Any difficulty the Company may experience with respect to developing its business presence in emerging urban areas outside Mega Manila and increasing competition in certain areas could negatively impact its results of operations through a loss of sale, reductions in margin from competitive price changes or greater operating costs and could materially affect its growth strategy and financial condition.

The Company believes that there will always be demand for medical products, in as much as there will always be a patient needing care. This demand may not be easily affected by economic downturns, although economic advances can be a catalyst for the healthcare system to advance as well, however, this same principal makes the healthcare industry very competitive. To lessen competitive pressures, the Company leverages on its strengths and strategies to continue to maintain an elevated customer experience, extensive product offerings, efficient service, and image or prestige pricing. The Company believes that its products are not easy to imitate because they are highly specialized and involves extensive R&D. there will always be several technical specifications that are unique to its products and brands. The reputation of the brands the Company carries cannot easily be paralleled because its Principals have built a reputable image for decades. As long as the Company continues to hype on the technology and brand image of its current product lines and to select principal partners that are world-renowned leading brands, then the threat of competition due to price will be lessened. For special circumstances that would require introductory, promotional, or strategically low prices, the Company believes that its ability to negotiate discounts and terms through its good relationship with its Principals will be to its advantage. Lastly, the categories the Company plays in can be a financial stretch to most other distributors. Its categories involve capital intensive equipment, high cost of infrastructure, and at time, prolonged project completion. The high capital requirements the categories entail are natural deterrents to new competitors, resulting to very select players in the market.

The Company relies on distributors, third-party service providers and other distribution networks for transportation, warehousing and delivery of products to its warehouses.

The Company relies on third-party distributors and suppliers, including concessionaires for its inventory intake, and other third-party service providers such as logistics services for the delivery of the Company's products to its customers, and warehouses. Consequently, the Company only has limited control over the timing of deliveries and the security of its products while they are being transported. A disruption within its logistics or supply chain network could adversely affect the Company's ability to distribute and maintain inventory, which would impair its ability to meet customer demand for products and results in lost sales, increased supply chain costs, or damage to the Company's reputation. The Company regularly monitors its inventory levels and consider order lead time in the replenishment of its inventories to mitigate the risk of product unavailability. However, any deterioration in the relationships between suppliers, distributors, and third-party service providers or other changes relating to these parties, including changes in supply and distribution chains, could have an adverse effect on the business, financial condition, and results of operations.

In addition, there can be no assurance that the Company will be able to effectively coordinate its logistics strategy to the degree necessary for the realization of its growth plans. As the Company continues to expand, it will need to ensure that it is able to secure efficient distributors and service providers for its new customers. An inability to efficiently operate and expand its warehouses and logistics capabilities could have a material adverse effect on its business, financial condition, cash flows, results of operations, and prospects. The Company seeks to address this risk with, among others, its selection policy for suppliers which includes consideration of the supplier's location, brand reputation, capacity to supply, ability to deliver on time and compliance with its requirements.

The Company relies on a limited number of third-party suppliers for the provision of merchandise and medical devices.

The Company relies on third-party suppliers for the provision of merchandise and medical devices. Eighty-seven percent (87%) of the Company's total procurement came from its major principals Siemens, B. Braun, and Varian. The Company may experience material disruptions in the supply of products due to prolonged interruptions in the operations of these suppliers, which may in turn be caused by several factors, including equipment failures or property damage experienced by these suppliers, changes in laws and regulations that affect their manufacturing processes, or financial difficulties, and labor disputes faced by these suppliers. Other factors may also disrupt the Company's ability to obtain products from these suppliers including weather-related events; natural disasters; trade policy changes or restriction; tariffs or import-related taxes; third-party strikes, lockouts, work stoppages or slowdowns; shipping capacity constraints; port congestion; third-party contract disputes; supply or shipping interruptions or costs; military conflicts; acts of terrorism; or other factors beyond the Company's control. Any such disruption could negatively impact its financial performance or financial condition.

The Company has been in long-term partnerships with the right principals. As a distributor, reliance on Principals for its products is the nature of its business. The Company must carefully select who to choose to be in business with. One way the Company manages the risk mentioned above is by choosing principals that have achieved longevity in their goal operations. Big multinational corporations, in fact, have even stricter policies and more established mitigants to risk in manufacturing, inventory management, and logistics. In the unfortunate event that one of the Company's long-term principals amends their strategies and disengages, the Company will still be protected by the notice provision in its contracts governing disengagement and depletion of stocks, if any. The Company believes that the healthcare market will never have a shortage of alternative viable principals. Every year, the Company's management team attends healthcare conventions across the globe to be updated with the happenings in the industry – new product trends, rising brands, growing categories, change in management of companies, as well as joint ventures, partnerships, buyouts, acquisitions, and disengagements. The Company does not close its doors to new principals seeking an opportunity for partnership. The Company's management team constantly conducts exploratory meetings with different principals all over the world via conventions, emails, web meetings, and face to face meet ups. With each exploratory meeting, the Company assesses the viability of every product considering several factors which include the market and its demand, its current structure, the resources it would entail, and most importantly, the estimated growth in its sales and profit, should the Company add the products in its portfolio.

Further, there can be no assurance that the Company's suppliers will have sufficient resources to continue to meet Medilines' demands. In the even that these suppliers cannot fulfill their obligations to supply sufficient quantities and, in such quality, as required, the Company may not be able to find suitable alternative suppliers on a timely basis to supply the same or similar types and quantities of merchandise, which may materially and adversely affect its business, financial condition, and results of operations. The Company strive to manage this risk by, among others, constantly reviewing its roster of suppliers to ensure that it is not dependent on a limited number of suppliers, and that each supplier is selected based on several criteria, including their ability to delivery in a timely fashion.

The Company is subject to inventory risks and face challenges in effectively managing its inventory.

The Company purchases inventories for a variety of reasons: (1) For stocking of small and medium sized plug-and-play devices usually upon engagement with a new principal, or of consumables packaged with machine sales depending on the quality or duration stated in the contract; (2) For order fulfillment of devices upon receipt of purchase order or contract, depending on the quality, specifications and other terms of reference specified in a contract; (3) For order fulfillment of third-party items required to operate specific equipment or attain site readiness depending on the quality, specifications and other terms of reference specified in a contract.
These inventories may be susceptible to inaccurate forecasting, damage, wrong or incomplete specifications, expiration, theft, obsolescence, slow turnover, among others. The Company also face challenges in managing order and delivery lead times. If the Company is not able to manage its inventory and procurement processes effectively, we may experience overstock for products that have lower customer demand, requiring the company to lower prices or take other steps to sell slower-moving inventory, recognize valuation losses on inventory or incur other costs in connection with inventory storage and management. The Company may also experience dead stocks for products that it can no longer sell for reasons such as disengagement with a principal, technology phase out, or inability to procure spare parts. In addition, if the Company was unable to manage sufficient lead times, it may incur penalties for not fulfilling projects within the time frame provided in the contract. Moreover, its inventories may be susceptible to risks while in transit. These risks include loss, damage, theft, delay, among others. As a result, these could have an adverse effect on business, financial condition, and results of operations.

To manage these risks, major projects have Delivery Duty Paid (DDP) incoterm on purchase contracts. The principal vendor assumes all responsibilities and risk of transportation of goods from manufacturing site to the nominated hospitals or centers. Contracts also include services such as installation, commissioning, testing, preventive maintenance, and other necessary services up to the acceptance of the projects by the procuring entity. With these, the Company's internal logistics can focus on the management and control of third-party accessories, consumables, and other smaller items necessary for project completion.

The Company has measures in place to make its inventory management more effective and less susceptible to major risks. First, procurement is usually triggered by purchase orders. The Company abides by the rules of "No P.O., No Purchase" under normal circumstances. Second, an inventory review is conducted every month where the Company management team discuss inventory shelf life and aging, and form action plans. These action plans include inventory retention, moveout (via discount or bundling), liquidation, donation, or scrapping. Third, the Company conducts a semi-annual wall-to-wall inventory cont. Fourth, the Company conducts quality checks and run tests upon receipt of the items. Fifth, the Company's central business IT system, Microsoft Dynamics 365 Business Central, digitally records and monitors its inventory management processes. Finally, the Company have several insurances in place that are specific to its inventories to help protect to its inventories to help protect the Company from further risks such as stock throughput insurance, which covers transfer and storage of goods.

The success of the Company's business depends in part on its ability to develop and maintain good relationships with its current and future outright sales suppliers.

The Company has long-standing working relationships with its existing suppliers. If it is unable to maintain these relationships, or if the Company lose its major principals and other key suppliers for any reason, it may not be able to continue to source products at competitive prices that both meet its standards and appeal to its customers. As a distributor, reliance on its principals for its products is the nature of the Company's operations. The Company's three (3) principals account for approximately eighty-seven percent (87%) of its purchases and ninety-nine percent (99%) of its revenues in 2022. The loss of any one of these major suppliers could have an adverse effect on the Company' sales.

Moreover, the Company's distribution arrangements with its current principals are not as exclusive partner but as authorized distributor for specific territories or channels. The territories which the principal assign to the Company my influence the scale of its operations and potential sales gains or opportunity losses. The loss of any territory or channel assigned to it could have an adverse effect on sales. The specific territories and channels assigned by each principal is national. The Company is assigned to the Philippines. On the other hand, assigned accounts include all government accounts and select private accounts.

Distribution contracts are renewed towards the expiry of the term, the lengths of which varies per agreement. It is industry practice that contracts are reviewed and renewed yearly, most especially for smaller medical equipment which is just delivered and immediately usable (plug-and-play). The Company's distribution contracts are typically renewed towards the expiry of the term. Failure to renew a contract with an existing major principal may materially and adversely affect the Company's business, financial condition, and results of operations.

As of December 31, 2022, the Company has no contract with B. Braun, but the Company has been buying, reselling, and distributing their products since 2002 to present.

For diagnostic imaging, linear accelerators and similar heavy medical equipment (as it takes months to install and commission), duration of contracts with principals extend to more than one year (maximum of three years) subject to renewal. Since Siemens/Varian products belong to this category, the term of the contract with them is three years.

The Company is the dominant distributor of all its principals. Medilines' distribution partnerships with its current principals have been maintained constantly for years: (a) although the company have no fixed contract with B. Braun Philippines, it has been buying, reselling, and distributing their products since 2002 to present or a total of 19 and (b) five years for Siemens/Varian to date. By persistently building its core strengths as a distributor of multination companies, Medilines is confident that its principals will continue to see its vital role as their long-time partner. Multinational companies rely on distributors for tactical and logistical advantages on the ground level. The Company have better understanding of the market and can help them reach their customers faster and more effectively. By further growing its network of customers, strengthening its relationships with key opinion leaders and end users, deepening its familiarity with processes from top to ground level, and by continuing to expand its logistical footprint; the Company can continue to demonstrate to its principals that it is in a better position to capture certain key accounts and geographical areas.

B. Braun has been the Company's business partner since 2002, and Medilines account for 70% of their distributor sales, thus, the Company believes that Medilines is their dominant distributor. Further, Medilines hold a dominant position in the dialysis equipment market. The Company believes that its dominance of the distributor market is a testament to its marketing and distribution expertise that is well-recognized by its principals. In the event that the Company will not be able to order or purchase products from B. Braun, as may be needed for whatever reason, it will source the items from other suppliers.

On the other hand, by strengthening its position as a distributor, the Company is also able to attract the direct competitors of its principals and principals from other healthcare categories. As a distributor, it is important for Medilines to keep its doors open to other principals, whether directly competing or complementary with its existing product lines, or from an entirely different healthcare category altogether, in case the Company is unable to maintain good relationship with its existing suppliers. In the event of disengagement, the Company believes that the healthcare market will never have a shortage of alternative viable principals.

Dissatisfaction with the Company's customer service could prevent it from retaining its customers.

The satisfaction of customers depends in particular on the effectiveness of the Company's services, in particular, its ability to address after-sales services such as preventive maintenance and repairs, in a timely and satisfying manner. While service-related items such as warranty, maintenance and repairs are covered by the Company's principals, these are coursed through Medilines. Any unsatisfactory response or lack of responsiveness by the Company's team and by its principal's service team could adversely affect customer satisfaction and loyalty.

To manage this risk, the Company have trained its sales and marketing team to address customer needs and concerns as soon as possible. For the Dialysis Division, the Company has experienced Technical Services Managers who can readily handle queries. To ensure that the principals address service concerns coursed through the Company as soon as possible, Medilines' team ensures proper and fast coordination with the principals' service teams. The Company also constantly monitor the developments of each service request through weekly alignment meetings with its principals.

Any damage to the Company's brand name "Medilines" could harm its business.

The Company's brand image and reputation is a key factor in the success of its business. The Company believes that maintaining and enhancing its brand is integral to its business and to the implementation of its growth strategy. Maintaining its brand requires the Company to continue to make investments in operations, such in human resource training and IT systems. The Company's brand image may be damaged if any of its products or services fail to maintain or enhance its brand image, or if the Company fail to maintain high standards for products and services quality. The strength of the Company's brand could also be affected due to noncompliance with laws and regulations, misconduct by its employees, machine or product defects, machine or product misuse, unfavorable experience from both medical expert or patient, product recalls or liability, employee dissatisfaction with its employment practices, or other negative publicity involving the Company or its products and principals.

The Company believes this risk can be managed through its strengths and strategies to ensure competitiveness in the market. For a more detailed discussion, please refer to the Company's Strengths. However, there is no assurance that the Company can provide an effective mitigation to such risk.

Any damage to the brand name of the Company's principals could harm the Company's reputation and its business.

The Company naturally becomes an extension of the image of the brands it distributes. Medilines business could be affected if any of its principals fail to maintain or enhance their brand image, or if they fail to maintain high standards for products and service quality. The Company's business could be affected due to their noncompliance with laws and regulations, misconduct by their employees, machine or products defects, machine or product misuse, unfavorable experience form both medical experts or patient, product recalls or liability, employee dissatisfaction, or other negative publicity. As a result, these could have an adverse effect on the Company's business, financial condition, and results of operations.

To mitigate this risk, the Company selects principals that have longstanding reliable reputations and established processes in mitigating risks, such as in the event of products recalls and other untoward situations. Medilines will not hesitate to disengage with principals and other partners that have continuous incidences of defects, delivery failures, service failures, and other factors that can negatively impact the Company's brand image. We believe that maintaining and enhancing its brand is integral to its business and to the implementation of its growth strategy.

The Company may be subject to negative publicity, including inaccurate adverse information.

Customers value readily available information and often at on such information without further investigation or authentication or regard to its accuracy. Social media and websites immediately publish posts from users, often without filters or checks on the accuracy of the content posted. Allegations against the Company may be posted on social media, in internet chat rooms or on blogs or websites by anyone on an anonymous basis. In addition, the Company may be the target of harassment or other detrimental conduct by third parties, including from its competitors. Its reputation may be negatively affected as a result of the public dissemination of anonymous allegations or demeaning statements about the Company's businesses even if these allegations or statements are unfounded and the Company may be required to spend significant time and money to address such allegations. Inaccurate adverse information may harm Medilines' business, and it may be able to redress or correct inaccurate posts in a timely manner, or at all.

The Company's business may become the subject of negative media coverage and public attention, which may develop strong dynamics and adversely affect its business. In addition, third parties may communicate complaints to regulatory agencies and the Company may be subject to government or regulatory investigation as a result of such complaints. There is no assurance that the Company will be able to conclusively refute such allegations in a timely manner, or at all.

Negative publicity and complaints could have a material adverse effect on the Company's business, financial condition, cash flows, results of operations, and prospects. To mitigate this risk, the Company maintains a direct line and a website that helps it engage its customer base and promote its products.

The Company may incur liability for the medical equipment it sells that violates the intellectual property rights of third parties.

The Company and its suppliers source merchandise worldwide. Its measures implemented to minimize potential infringement of intellectual property rights of third parties may not always be successful. In the event that the medical equipment violates the intellectual property rights of third parties, the Company, in its capacity as a distributor, may be found liable for intellectual property violation and may be compelled to pay damages. Moreover, the Company cannot assure that it can successfully obtain indemnity payments from its suppliers or that such indemnity payments will fully cover all of its loss associated with its liability. If any claims alleging infringement of intellectual property rights are bought against the Company or its suppliers, the Company's reputation may also be damaged. To mitigate this risk, the Company primarily deal with the country's leading and reputable medical equipment suppliers in the medical consumables segment. The Company also undertake due diligence on third party suppliers before sources products from suppliers.

The Company relies on information technology in its operations, and any failure of such systems could harm its ability to effectively operate its business.

Medilines' business operations are dependent on the integrity of the information technology systems supporting them, many of which have only recently been implemented. The Company manages its inventory and logistical operations through the use of various information technologies, including intranet, networked personal computers, servers, and automated inventory management systems. The Company's systems and operations may be vulnerable to damage or interruption from human error, data inconsistency, natural disasters, power loss, computer viruses, international acts of vandalism, breach of security and similar events.

The Company uses Microsoft Dynamics 365 Business Central. It is a robust and flexible business management solution from Microsoft, tightly integrated with the Office 365 suite of products. The database of Microsoft Dynamics 365 Business Central is stored on Microsoft Azure Cloud for scalability, accessibility, and security. Moreover, the Company's IT system is secured by a multilayered protection software solution that includes endpoint antivirus, endpoint security, virtualization security, mobile security, file security, and remote management. If the IT system experiences a glitch or breaks down, the software company's service team is available 24/7 to assist the Company. In case the system breaks down for a prolonged period, the Company can revert to manual without significantly affecting business operations.

The Company may not be able to hire, retain, and train sufficient qualified personnel to support its operations and the Company may be subject to increased labor costs.

The Company's operations are streamlined. Its business is run by select individuals, some of whom possess the required technical and clinical knowledge about its medical devices. The success of the Company's business depends on its ability to hire, train, and retain the right people with the requisite, sometimes specialized, skills and know how to serve its customers. If the Company experiences difficulties in maintaining a qualified workforce, its ability to compete effectively in its target markets, provide high-quality customer service, and execute its business strategy could be adversely impacted, and its results of operations could in turn be negatively affected.

The Company have structures in place that helps hire, train, and retain the right people. The Company have developed a reputation of good standing in its industry that helps attract qualified and experienced applicants, retain good talent, and prevent regrettable attrition. The Company does not hesitate to invest in the right talent. It solicits the assistance of third-party employment services for urgent job postings. The Company is known to invest in training for both hard and soft skills that its employees need to do their jobs well. The Company promotes job satisfaction to retain key employees by providing them with attractive benefits and bonuses, and via job promotion, among others. The Company undergo continuous review and updating of its hiring and renumeration policies. It also conducts salary surveys yearly to assess the Company's competitiveness among its industry comparators.

The Company's operations have significant liquidity and capital requirements and depend on the availability of adequate financing on reasonable terms, and if the Company is unable to borrow sufficient capital, it could have a significant negative effect on its business.

The Company's operations have significant liquidity and capital requirements. It requires significant cash to purchase sufficient inventory in advance of anticipated demand, and the Company have invested significant capital in its business and expect to continue to make similar investments in the future. The Company expects to continue to incur significant capital expenditures going forward, as it continues to expand its products network.

The Company sources its funding from a combination of cash flow from operations, working capital lines, and long-term debt. It may not be able to fund capital expenditures and working capital requirements solely from cash from its operating activities or existing cash or proceeds from the Offer, and the Company may not be able to obtain additional debt or equity financing. The Company may not be available as and when required. If the Company incur additional debt, it will result in increased debt service obligations and could result in additional operating and financing covenants, or liens on its assets, that will restrict its operations. Without required financing, the Company may not be able to continue its operations, hire, train, and retrain employees or respond to competitive pressures. The Company's ability to obtain additional funding will be subject to various factors, including general market conditions, its operating performance, the market's perception of its growth potential, lender sentiment, and its ability to incur additional debt in compliance with other contractual restrictions, revenue and cash flow from operations and its ability to manage costs and working capital successfully. Any inability to access favorable debt financing may adversely impact the Company if it experiences cash flow shortfalls in the future or wish to raise funds to take advantage of unanticipated opportunities or respond to changing business conditions or unanticipated competitive pressures. The Company's ability to obtain additional funding will be subject to various factors, including general market conditions, its operating performance, the market's perception of the Company's growth potential, lender sentiment, and the Company's ability to incur additional debt in compliance with other contractual restrictions, revenue, and cash flow from operations, and its ability to manage costs and working capital successfully. Any inability to access favorable debt financing may adversely impact the Company if it experiences cash flow shortfalls in the future or wish to raise funds to take advantage of unanticipated opportunities or respond to changing business conditions or unanticipated competitive pressures. In addition, the Company cannot assure that its future financing requirements would not involve equity issuances that would be dilutive to holders of its capital stock. There can be no assurance that necessary financing will be available in amounts or on terms acceptable to the Company, or at all.

If the Company fails to raise sufficient additional funds, it may be required to delay or abandon some of its planned future expenditures or aspects of its current operations, and its financial condition and results of operations may be materially and adversely affected.

To mitigate these risks, the Company relies on its continuous good relationship with banks and other credit institutions for favorable rates and terms. The Company also relies on its continuous good relationships with its principals and suppliers for acceptable prices and terms, and for renegotiations when needed. Finally, the Company constantly put its focus on profitability by managing its costs and investing on only profitable projects.

The Company's margins may be affected by increases in its operating and other expenses.

The Company's operations may be subject to increases in operating and other expenses due to a number of factors including, but not limited to, any of the following:

- Increase in rent;
- Increases in repair and maintenance costs for the office and warehouses, and construction costs related to fit-out of new warehouses;
- A change in laws, regulations or government policies which increases the cost of compliance with such laws regulations or policies;
- Increases in service costs;
- Increases in labor costs;
- Increases in the rate of inflation;
- Adverse changes in the cost of existing and future debt financing;
- Increases in insurance premiums;
- Increases in the cost of utilities;
- Increases in property taxes and other statutory charges; and
- Increases in distribution cost.

Any increase in the Company's operating and other expenses will have an impact on its cash flow. Due to the nature of its business, the Company's margins may be affected by increases in its operating and other expenses. The resulting buffer available to account for changes to costs is consequently small. If the Company does not generate revenue sufficient to meet its operating expenses and debt service and capital expenditure requirements, its business, results of operations, and financial condition could be materially and adversely affected. To mitigate this risk, the Company continuously strive to improve its margin efficiencies by controlling its operating costs and leveraging its strong relationships with its key partners and suppliers to control the Company's procurement costs.

The Company's business is sensitive to changes in purchase and selling prices.

The Company's margins are sensitive to price increases in the products sold. Wherever practicable, the Company seeks to put in place supply contracts which ensure the supply of products for the period that it is anticipated to be offered and in such quantities as its forecasts require. There can be no assurance that the Company will be able to successfully contain the growth of its purchase prices. If these prices do rise, the Company may need to pass all or a portion of these additional costs on to its customers to maintain its gross profit margins. However, it may not be possible for the Company to significantly increase its prices to offset price increase, particularly if its main competitors maintain a lower price.

As competition in the market intensifies, any unilateral price increases may lead to declines in sales, loss of market share and other adverse consequences. Consequently, the Company may be significantly constrained in its pricing policy. In the event that the Company is unable to pass increases in prices charged by its suppliers on to its customers, its financial condition and results of operations may be materially and adversely affected.

To mitigate this risk, the Company constantly harp on the quality image of its principals as well as the advanced technical specifications of its medical equipment. Especially for devices that require high capital outlays, customers require quality of product and service (like warranties and other after sales services), as well as specific technical functionalities and advanced features. The Company also leverages on its competitive strengths and strategies to continue to maintain an elevated customer experience, efficient service, and reliable brand image.

Volatility in the value of the Peso against the US dollar and other currencies could adversely affect the Group's businesses.

During the last decade, the Philippine economy has from time-to-time experienced volatility in the value of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that it would allow market forces to determine the value of the Peso. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S. $1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004. In recent years, the Peso has generally appreciated, and the exchange rate (period average) was ₱42.47 in 2013, ₱44.40 in 2014, and ₱45.54 in 2015.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies As of December 31, 2022, according to BSP data, the Peso has depreciated by 10.53% to ₱56.120 per U.S.$1.00 from ₱50.774 per U.S.$1.00 at the end of 2022.

The revenues of the Group are predominantly denominated in Pesos while a small percentage is in foreign currency. The products are imported by the principals and the revenues of the Company are primarily in Philippine Pesos.

There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Philippine economy and on the Group's businesses.

Any future changes in PFRS may affect the financial reporting of the Company.

PFRS continues to evolve as standards and interpretations are promulgated and come into effect. For example, PFRS 16 replaces the accounting requirements for leases under the old standard (PAS 17, Leases). The new standard requires all leases, except for short-term and low-value leases, of a lessee to be reported on the statement of financial position as an asset and liability. PFRS 16 became effective for annual periods beginning on or after January 1, 2019. The Company have adopted PFRS 16 retrospectively with the cumulative effect of initial application recognized on January 1, 2019, as permitted under the transitional provisions of the standard and therefore comparative information is not required to be restated. The adoption of PFRS 16 has resulted in changes in the accounting of the Company's lease transactions. Prior to 2019, lease payments in respect of warehouse facilities were treated as rent expense. Upon adoption of this standard, the present value of future lease payments throughout the expected lease period, including probably lease extensions, are recognized as lease liability and the corresponding right-of-use asset is recognized in view of the right obtained by the lessee to use the relevant facilities. Under the Company's statements of comprehensive income, amortization, and interest expense on lease liability are recognized in 2019 while rent expense was recognized in 2018 and 2017. To mitigate any potential risk to the Company, it shall ensure close coordination with its auditors and full compliance with relevant regulations.

The Company is subject to the risk of litigation and other legal proceedings in the ordinary course of business.

Although the Company is not party to any material ongoing litigation, it may be adversely affected by complaints and litigation from customers or regulatory authorities resulting from product quality, illness, injury, or other safety concerns or other issues stemming from one or more products, their packaging or advertising. The Company requires its product suppliers to satisfy certain standards regarding the quality and specification of its products.

Medilines currently does not have any product liability insurance. In the event of a product liability claim or product recall being required in circumstances where the financial consequences are not satisfied by a supplier, it may have a material adverse effect on the Company's financial performance. Any such litigation claims or complaints and any adverse publicity surrounding such allegations and/or actions could materially adversely affect the Company's business, reputation, financial condition, and/or operating results.

To mitigate this risk, the Company strives to maintain good relationship with customers, suppliers, contractors, regulators, and other parties it regularly deals with. The Company also endeavors to amicably discuss and resolve potential disputes, resort to alternative methods of dispute resolution, and exhaust all legal remedies available.

The Company is subject to various risks for which it may not be adequately insured.

The Company maintains comprehensive property and liability insurance that it considers to be insurance coverage customary in its industry. Its Stock Throughput Insurance, a cargo insurance, provides end-to-end cover for its stocks. Nonetheless, such insurance does not cover all risks associated with its business. Accidents and other events could potentially lead to interruptions of its operations or cause it to incur significant costs, all of which may not be fully covered by the Company's insurance policies. As Medilines expand its product offerings and operations, its inventory levels will increase, for which obtaining additional insurance coverage may be required. In addition, its insurance coverage is subject to various limitations and exclusions, retention amounts, and limits, and the Company does not maintain business interruption insurance or product liability insurance. Furthermore, if any of its insurance providers becomes insolvent, it may not be able to successfully claim payment from them. Moreover, the Company's insurance policies and terms of coverage will be subject to renewals and negotiations on a periodic basis and there is no assurance that adequate insurance coverage will be available on commercially reasonable terms in the future. Any material increases in insurance rates, decrease in available coverage or any failure to maintain adequate insurance in the future could adversely affect our business, financial condition, and results of operations.

To mitigate this risk, the Company believes it has insurance coverage in-line with industry standards and requirements. The Company has various insurance policies Stock Throughput Policy on the imported inventory from plan and locally sourced stocks from declared warehouses up to its final destination. Stock Throughput Policies include coverage in cases of fire lightning, earthquake, typhoon, flood, vehicle impact, landslide, riot and strike, malicious damage, among others. Additional non-standard insurance policy such as Contractors All Risk and Erection All Risk Insurance are considered for projects with construction and installation activities. These insurance policies should provide optimal protection up to project completion. To manage the risk of failing to assert the Company's claim on insurance, a protocol will be set-up to properly monitor, document, assess, and report incidents that are covered by insurance policies in place.

The Company is highly dependent on business with government hospitals.

Majority of the Company's customers are government hospitals whose purchases are done through competitive public bidding. Revenues from sales to government hospitals accounted for approximately 93% of its revenues in 2022. The Company relies heavily on the bidding process which is subject to delays, changes in requirements, and standards, as well as changes in regulations. Public biddings provide very detailed specifications which the Company's products, thought in the same product line, may not meet. Due to the quality tier of the products the Company carries, it may not be able to provide competitive prices. There can be no assurance that it will win the future biddings or procurement projects which it may participate in.

New laws, rules or regulations, or revisions to existing laws, rules or regulations, could impose additional restrictions and requirements on the bidding process. As a result, the Company might not be able to win bids, and in the process, lose customers.

In a similar manner, the Company is also dependent to the business with the DOH which is the Company's single largest customer. The spending behavior of the department is subject to a multitude of factors which may either increase or decrease the size of its procurement of medical equipment that it lets third-party providers such as Medilines bid for.

The risk is naturally offset by the statutory structure of such bidding procedures as earlier stated that when the DOH does bit out requirements, funds are already required to be obligated by the government. This ensures that the pipeline of projects that Medilines bid for are already funded and that their respective funding could only be spent on the purpose specified by law.

To further mitigate this risk, the Company also diversifies its client base which shall be aided by the continued nationwide vaccination rollout which will help restart the economy. Because of this, the Company will be able to continue to achieve the optimum balance between government and private accounts, as medical institutions slowly re-open to other services. Currently, the Company is taking steps in expanding its business sin private accounts by prioritizing established private hospitals or groups of hospitals that have a more solid financial position amidst the pandemic.

The Company is subject to customer credit risks and payment defaults by customers.

Exposure to customer credit risks and payment defaults by customers could have a material adverse effect on the Company's financial condition, results of operations, and liquidity. Majority of this risk involves smaller private entities, which includes hospitals and sub-dealers, whose operations and financial standing have higher vulnerability to economic shocks, financial crises, and other risks. Purchases of government hospitals have more secure payment provision as these are guided by the stipulations of RA 9184, otherwise known as the Government Procurement Reform Act, which states that an approved budget of the contract must exist prior to any public bidding.

The Company's trade receivables stood at ₱1,477 million and 1,531 million as of December 31, 2023, and December 31, 2022. The following table summarizes the portion of the trade and other receivables (excluding advances to suppliers and advances to employees, which are considered non-financial assets, and receivables from public entities, which are separately assessed below) that are past their due dates as of December 31, 2023, and December 31, 2022.

<u>December 31, 2023</u>

Days past due	Expected loss rate	Gross carrying amount as at December 31, 2023 (in million pesos)	Loss allowance
0 -120	0.00%	₱ 780,891,158	₱ -
121 - 180	0.00%	114,628,993	-
181 - 365	0.00%	260,324,919	-
Above 365	13.15%	291,623,023	33,926,215
		₱ 1,447,468,093	**₱ 33,926,215**

December 31, 2022

Days past due	Expected loss rate	Gross carrying amount as at December 31, 2022 (in million pesos)	Loss allowance
0 -120	0.00%	₱ 720,558,402	₱ -
121 - 180	0.00%	126,403,994	-
181 - 365	0.00%	152,020,025	-
Above 365	13.15%	532,319,472	34,217,038
		₱1,531,301,893	**₱ 34,217,038**

The Company mitigates this risk by prioritizing business with government accounts, whose payments are secured, and with established private hospitals or groups of hospitals that have more stable operations and financial position. The Company also have a strict process of accrediting new private customers and approval of credit terms. Every new private customer must submit a Credit Application Form with trade references from at least three (3) of their existing customers, and attached documents which include BIR 2303, License to Operate, Income Tax Return, and Department of Trade and Industry Certificate of Registration. At the same time, the Company performs credit investigation through its premium subscription in CIBI Information, Inc., the Philippines' first and only credit reporting agency. The Credit Application Form, its attachments, and the findings from CIBI Information Inc., will then help the company reach a sound decision whether to approve the appropriate credit terms with each customer. Usually, new customers are approved only on cash on delivery terms, or terms consisting of a down payment and the balance payment in the form of post-dated checks. The Company reviews credit terms annually and provide more laxed terms to customers with longstanding relationships and consistent good standing.

The Company is subject to the risk of defaulting on its loan obligations.

The Company has existing loan obligations. These are short term and working capital in nature which have a current match on the current asset. Events beyond the control of the Company, including prevailing economic, financial, and industry conditions may affect the ability of the Company to comply with covenants contained in its loan obligations. Any default by the Company on its existing debt covenants could adversely affect the business and the liquidity and financial condition of the Company. Any default by the Company may result to the possibility of the foreclosure of mortgages on the Company's properties securing the loan obligations.

To manage this risk, the Company develops, executes, and regularly reviews its borrowing or financing plans with its banking partners. In addition, the company also exercises prudent financial risk management by maintaining a current ratio or working capital ratio of above 1.00. As of December 31, 2023, the Company's current ratio is 2.15.

The Company is subject to various laws and regulations, and any violations of applicable laws or regulations or charges to such laws and regulations could adversely affect its business and its results of operations.

The Company's business and operations are subject to a wide range of laws and regulations, including those relating to employment, working conditions, consumer protection, the environment, competition, trade, and intellectual property. The primary regulations applicable to its operations include standards regulating public bidding, packaging safety, construction, business permits, fire safety, and sanitation.

In addition, all construction and development plans are required to be filed with and approved by the local government unit concerned. The requirements of each local government unit may vary but in general, approval of such plans is conditional upon, among other things, the developer's financial, technical, and administrative capabilities and, where the warehouse site is leased, presentation of the lease contract or authority from the registered owner of the site authorizing the construction or fit-out of the warehouse. There can be no assurance that the Company will be able to obtain the relevant governmental approvals for its offices and warehouses or that when given, such approval will not be revoked. There can also be no assurance that the Company will continue to pass ongoing consumer safety and quality inspections in all of its warehouse locations.

New laws, rules or regulations, or revisions to existing laws, could impose additional restrictions and requirements on the Company's business and operations and could result in additional compliance costs, capital expenditures or other costs. As a result, the Company could experience disruptions to its operations and be unable to execute its business strategy, and its result of operations could be adversely affected. In addition, its ability to comply with applicable laws and regulations can be affected by a variety of factors, including the effectiveness of its compliance and risk management policies, the ability of its management to adequately monitor its operations and intentional or unintentional misconduct or errors of its officers, employees, affiliates, or other parties with whom it does business. If the Company fails to comply with applicable laws and regulations, it may be subject to investigations, fines, penalties, sanctions, and private litigation, and it could lose regulatory permissions or licenses necessary for its business or experience harm to its reputation.

The Company believes, to the best of its knowledge, that it has, at all relevant times, materially complied with all applicable laws, rules and regulations, and has established a strong compliance culture to ensure that all requirements, permits, and approvals are obtained in a timely manner.

The Company may fail to fulfill the terms and conditions of licenses, permits, and other authorizations, or fail to renew them on expiration.

The Company is required to maintain licenses, permits, and other authorizations, including those relating to certain construction activities for new and existing warehouses, licenses to operate from the Food and Drug Administration ("FDA"), and are also required to obtain and renew various permits, including business permits and permits concerning, for example, health and safety, environmental standards and distribution standards. Its licenses, permits, and other authorizations contain various requirements that must be complied with to keep such licenses, permits, and other authorizations valid. If the Company fails to meet the terms and conditions of any of its licenses, permits or other authorizations necessary for its operations, these may be suspended or terminated, leading to temporary or potentially permanent closing of warehouses, suspension of construction activities or other adverse consequences. In addition, it cannot be certain that any given license, permit, or authorization will be deemed sufficient by the relevant governmental authorities to fully cover activities conducted in reliance on such license, permit, or authorization.

The Company regularly monitors its permits and approval to ensure that all are properly renewed and maintained. There can be no assurance that it will continue to be able to renew the necessary licenses, permits and other authorizations for its warehouses as necessary or that such licenses, permits, and other authorizations will not be revoked. If the Company is unable to obtain or renew them or are only able to do so on unfavorable terms, this could have an adverse effect on its business, financial condition, and results of operations.

Continued compliance with, and any changes in, environmental laws and regulations may adversely affect the Company's results of operations and financial condition.

The Company is subject to various laws relating to environmental matters. Such laws provide that it may be made liable for the costs of removal of certain hazardous substances and clean-up of certain hazardous locations. The failure to remove or clean-up such substances or locations, if any, could adversely affect its operations on such sites and could potentially also result in claims against the owner by the claimants.

In addition, the Company cannot predict what environmental legislation or regulations will be enacted or amended in the future, how existing or future laws or regulations will be enforced, administered, or interpreted, or the amount of future expenditures that may be required to comply with these environmental laws or regulations or to respond to environmental claims. The introductions or inconsistent application of, or changes in, laws and regulations applicable to its business could have an adverse effect on business, financial condition, and results of operations.

To manage this risk, the Company maintains strong relationships with regulators and regularly communicate with them on any proposed changes to applicable regulations.

The Company is part to a number of related party transactions.

Certain companies controlled by Mr. Virgilio B. Villar enter into significant commercial transactions with Medilines. The Company enters into a number of transactions with related parties, which primarily consists of (1) Asya Medika, Inc., a company that distributes medical products for the hospital's day-to-day operating room procedures, otherwise known as Life Support machines and consumables; and (2) Medpro Medical Suppliers, Inc., a company that sells medical supplies and disposables catering only to wholesalers. It is to be noted that Mr. Villar is only a beneficial owner of Medpro Medical Suppliers, Inc.

The Company's related party transactions are described in greater details under the notes to its financial statements. The Company's practice is to enter into contracts with these affiliated companies on commercial terms which are at least as favorable as the terms available to or from non-affiliated parties.

Such interdependence may mean that any material adverse changes in the operations or financial condition of the companies which are controlled by Mr. Virgilio B. Villar could adversely affect its results of operations.

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses upon determination of the necessity to prevent evasion of taxes or to clearly reflect the income of any such business. On January 23, 20213, the BIR issued Regulation No. 2-2013 on Transfer Pricing Regulations (the "Transfer Pricing Regulations") which adheres to the arm's length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines in addressing Base Erosion and Profit Shifting. The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm's length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm's length. In such a case, the BIR pursuant to the BIR Commissioner's authority to distribute, apportion or allocate gross income or deductions between or among two or more businesses owned or controlled directly or indirectly by the same interests (if such is necessary in order to clearly reflect the income of such business), may make the necessary transfer pricing adjustments to the taxable profits of the related parties to ensure that taxpayers clearly reflect income attributable to controlled transactions and to prevent the avoidance of taxes with respect to such transactions. While the Company believes that it enters into transaction with related parties on an arm's length basis and documented pursuant to the Transfer Pricing Regulations, there can be no assurance that the BIR will confirm these transactions as arm's length on the basis of the Transfer Pricing Regulations and there can be no assurance that any transfer pricing adjustments by the BIR will not have a material adverse effect on its business, financial condition, or results of operations.

The Company can provide no assurance that its level of related party transactions will not have an adverse effect on its business or results of operations. To mitigate this risk, the Company has adopted a Related Party Transaction policy in line with corporate governance requirements applicable to publicly listed companies.

The Company's business and operations are dependent upon key executives.

Medilines' key executives and members of management have greatly contributed to its success with their knowledge, business relationships, and expertise. If the Company is unable to fill any vacant key executive or management positions with qualified candidates, is business, operating efficiency, and financial performance may be adversely affected.

To mitigate this risk, Medilines has a succession planning program in place. The Company has been developing its middle management through continuous hiring and training and will continue to do so in order to prevent a potential void in any of its key positions.

RISKS RELATING TO THE PHILIPPINES

The Company's business activities and assets are based in the Philippines, therefore, any downturn in the Philippine economy could have a material adverse impact on its business, financial condition, result of operations, and prospects.

The Philippine has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso, and the imposition of exchange controls. We cannot assure prospective investors that one or more of these factors will not negatively impact the purchasing power of Philippine consumers. Demand for many of these factors will not negatively impact the purchasing power of Philippine consumers. Demand for many of the products carried by the Company is tied closely to domestic consumer purchasing power and disposable income levels. Any decrease in consumer purchasing power and disposable income levels could have a material adverse effect on the business, operations, and financial condition of the Company.

There is still some uncertainty as to the economic prognosis in the US and in Europe, as well as the global economy in general, which could cause economic conditions in the Philippines to deteriorate. Any future deterioration in economic conditions in the Philippines could materially and adversely affect the Company's financial position and results of operations, including the Company's ability to grow its business, and its ability to implement its business strategies. Changes in the conditions of the Philippine economy could materially and adversely affect the Company's business, financial condition or results of operations.

Any downturn in the Philippine economy may have a negative impact on consumer sentiment and general business conditions in the Philippines, which may materially reduce the revenues, profitability and cash flows of the Company.

Political instability in the Philippines may have a negative effect on the Philippine economy and business environment which could have material adverse impact on the Company's business.

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including impeachment proceedings against two former presidents and the chief justice of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment may negatively affect the general economic conditions and operating environment in the Philippines, which in turn could have a material adverse effect on the business, operations, and financial condition of the Company.

The Company may also be affected by changes in government policies in the Philippines. Such regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company's business.

There can be no assurance that the current or any new administration will continue to implement social and economic policies that promote a favorable and stable macroeconomic and business environment. Policy instabilities or fundamental change of policy directions, including those with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and the loss of investor confidence in the Philippines. Any potential instability could have an adverse effect on the Philippine economy, which may impact our business, prospects, financial condition and results of operations.

Natural and other catastrophes, including severe weather conditions, may materially disrupt the Company's operations and financial conditions.

The Philippines has experienced several major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt our operations, and consequently, may adversely affect our business, financial condition and results of operations.

Further, we do not carry any insurance for certain catastrophic events, and there are certain losses for which we cannot obtain insurance at a reasonable cost or at all. We also do not carry any business interruption insurance. Any material uninsured loss could materially and adversely affect our business, financial condition and results of operations.

Acts of terrorism could destabilize the country and could have a material adverse effect on the Company's assets and financial condition.

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with various groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities located in the southern part of the country.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to our business and materially and adversely affect our financial conditions, results of operations and prospects.

Continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the Armed Forces of the Philippines, which could destabilize parts of the Philippines and adversely affect the Philippine economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on our business, financial condition, and results of operations.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

Competing and overlapping territorial claims by the Philippines, the PRC and several Southeast Asian nations (such as Vietnam, Brunei and Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflict.

The PRC claims historic rights to nearly all of the West Philippine Sea based on its so-called "nine-dash line" and in recent years dramatically expanded its military presence in the sea, which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at the Hague, Netherlands to legally challenge claims of the PRC in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea. In July 2016, the tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that the "nine-dash line" claim of the PRC is invalid. The Government, under the current administration, has taken measures to de-escalate tensions concerning the territorial dispute with the PRC.

There is no guarantee that the territorial dispute between the Philippines and other countries, including the PRC, would end or that any existing tension will not escalate further, as the PRC has taken steps to exercise control over the disputed territory. In such event, the Philippine economy may be disrupted, and its business and financial standing may be adversely affected.

Any deterioration in the Philippine economy as a result of these or other factors may adversely affect the Company's operations. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions or suspension of visa-free access and/or overseas Filipinos permits. Any such developments could materially and adversely affect the Company's business, financial condition and results of operations.

Any decrease in the credit ratings of the Philippines may adversely affect the Company's business.

The Philippines is currently rated [investment grade] by major international credit rating agencies such as Moody's, Standard & Poor's and Fitch. In May 2020, the Philippines received its first credit rating outlook downgrade in 15 years after Fitch lowered the country's credit outlook to negative from stable due to the economic fallout from the COVID-19 pandemic. As of July 16, 2020, Moody's has affirmed the Philippines Baa2 rating with stable outlook. On January 10, 2021, Fitch affirmed the Philippines' long-term foreign-currency issuer default rating at BBB, noting that the outlook is stable. On July 12, 2021, however, Fitch revised the outlook of the Philippines to negative, although its long-term foreign-currency issuer default rating remained at BBB. The change in outlook was attributed to the potential scarring effects, and possible challenges associated with unwinding the exceptional policy response to the COVID-19 health crisis and restoring sound public finances as the pandemic recedes.

As of December 6, 2023, S&P Global Ratings (S&P) has affirmed the Philippines' investment grade long-term credit rating of "BBB+" and short-term rating of "A-2" while keeping the outlook on the country's long-term rating at "stable.". While Moody's and S&P retained the sovereign rating and stable outlook, no assurance can be given that these agencies will not in the future downgrade the credit ratings of the Government and, therefore, Philippine companies, including the Company. As a systemic risk, the Company cannot provide assurance of effective mitigation. Any such downgrade could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Company, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

LEGAL PROCEEDINGS

The Company is not involved in any material litigation, arbitration, or similar proceedings, and it is not aware of any such proceedings pending or threatened against it or any of its properties which are or might have material effect on the business or financial position of the Company.

PART 2 – OPERATIONAL AND FINANCIAL INFORMATIONS

MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

The Company has outstanding 2,746,575,800 common shares. All common shares are listed and traded principally on the Philippine Stock Exchange, Inc ("PSE") as of December 31, 2023. The closing price on December 29, 2023, the last trading date of the year, is ₱0.33 per share.

The following are the quarterly high and low prices, as well as the closing price of the company's shares traded in the PSE:

	2021			2022			2023			2024		
Quarter	**High**	**Low**	**Close**	**High**	**Low**	**Close**	**High**	**Low**	**Close**	**High**	**Low**	**Close**
1st	-	-	-	1.24	0.80	0.87	0.80	0.61	0.63	0.34	0.29	0.30
2nd	-	-	-	0.90	0.54	0.58	0.65	0.53	0.55	-	-	-
3rd	-	-	-	0.80	0.57	0.63	0.58	0.40	0.40	-	-	-
4th	1.70	1.20	1.29	0.87	0.60	0.69	0.44	0.31	0.33	-	-	-

The market capitalization of the Company as of December 29, 2023, was approximately ₱906,370,014.00 based on the closing price of ₱0.33 per share.

Holders

The following table sets forth the stockholders of record of the Company as of December 31, 2023:

Shareholder	Number of Shares Subscribed	% Ownership
Virgilio Villar	1,005,002,800.00	37%
PCD Filipino	808,782,400.00	29%
Two On, Inc.	600,000,000.00	22%
Ma. Theresa Villar	319,996,000.00	12%
PCD Non Filipino	9,103,600.00	0%
Rene Golangco	7,000,000.00	0%
Solar Securities, Inc.	100,000.00	0%
Juan Trinidad Lim	10,000.00	0%
Jennifer T. Ramos	2,000.00	0%
Jesus Luis Valencia	2,000.00	0%
Maria Patricia Yambing	400.00	0%
Norman Macapagal	400.00	0%
Fernando Segovia	400.00	0%
Brian Edang	400.00	0%
Gerardo Guerrero	400.00	0%
TOTAL	**2,750,000,800.00**	**100%**

Dividends and Dividend Policy

Liquidation and Requirements

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual, or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the SEC.

The approval of the board of directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing not less than two-thirds of the outstanding capital stock at a regular or special meeting duly called for the purpose.

The Revised Corporation Code of the Philippines generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probable contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

Record Date and Payment Date

Pursuant to existing SEC rules, any declaration of cash dividends must have a record date not less than 10 nor more than 30 days from the date of declaration. For stock dividends, the record date should not be less than 10 nor more than 30 days from the date of the shareholders' approval. In either case, the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP.

Pursuant to the "Amended Rules Governing Pre-emptive and other Subscription Rights and Declaration of Stock and Cash Dividends" of the SEC, all cash dividends and stock dividends declared by a company shall be remitted to PDTC for immediate distribution to participants not later than 18 trading days after the record date (the "Payment Date"); provided that in the case of stock dividends, the credit of the stock dividend shall be on the Payment Date which in no case shall be later than the stock dividends' listing date. If the stock dividend shall come from an increase in capital stock, all stock dividends shall be credited to PDTC for immediate distribution to its participants not later than 20 trading days from the record date set by the SEC, which in no case shall be later than the stock dividends' listing date.

Dividend Policy

Pursuant to a board approval on 2 August 2021, the Company intend to maintain an annual dividend payment ratio of 10% to 30% of net income after tax for the preceding fiscal year, payable primarily in cash. However, the Board of Directors, in its discretion, may decide to declare dividends to be payable in property or shares. The declaration of dividends shall also be subject to the requirements of applicable laws and regulations, compliance with the Company's loan covenants and other circumstances which restrict the payment of dividends. The Board, may, at any time, modify such dividend payout ratio depending upon the results of operations and future projects and plans and other considerations.

Dividends shall be declared and paid out of the Company's unrestricted retained earnings which shall be payable in cash, property or sock to all shareholders on the basis of outstanding stock held by them. Unless otherwise required by law, the Board, at its sole discretion, shall determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

- The level of earnings, cash flow, return on equity and retained earnings;
- Results and financial condition at the end of the year in respect of which the dividend is to be paid and expected financial performance;
- The projected levels of capital expenditures and other investment programs;
- Restrictions on payments of dividends that may be imposed on the Company by any of its financing arrangements and current or prospective debt service requirements; and
- Such other factors as the Board deems appropriate.

History of Dividend Payment

On December 26, 2019, the Company's Board of Directors declared stock dividends in the amount of ₱286.30 million for stockholders of record as of December 31, 2019. The stocks were distributed on December 31, 2019.

On June 30, 2021, the Company's Board of Directors declared cash dividends in the amount of ₱255.00 million payable to stockholders of record as of June 30, 2021. The cash dividends were partially paid on August 18, 2021.

On May 24, 2022, the Company's Board of Directors declared cash dividends in the amount of ₱16.96 million payable to stockholders of record as of June 7, 2022. The cash dividends were distributed on June 28, 2022.

On August 17, 2022, the Company's Board of Directors declared cash dividends in the amount of ₱8.48 million payable to stockholders of record as of September 1, 2022. The cash dividends were distributed on September 22, 2022.

On July 3, 2023, the Company's Board of Directors declared cash dividends in the amount of ₱28.8 million payable to stockholders of record as of July 18, 2023. The cash dividends were distributed on August 11, 2023.

The Company did not declare dividends in the years ended December 2018 and 2020.

Recent Sales of Unregistered or Exempt Securities, including Recent Issuance of Securities Constituting an Exempt Transaction

On 27 July 2021, with the approval by the SEC of the increase in the Company's authorized capital stock from ₱400,000,000.00 dividend into 400,000 common shares with a par value of ₱1,000.00 per common share to ₱1,000,000,000.00 dividend into 4,000,000,000 common shares with par value of ₱0.25 per share. The Company issued 600,000,000 common shares to Two On, Inc. at par value equivalent to ₱150,000,000.00. Payment for such shares was made in cash.

Security Ownership of Certain Record and Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Company's voting Securities as of December 31, 2023

Name	Address	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Total No. of Shares Held
Virgilio B. Villar	3rd Floor Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Pinas City	The record owner is the beneficial owner of the shares indicated	Filipino	1,005,002,800	1,005,002,800
Two On, Inc.	3rd Floor Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Pinas City	The record owner is the beneficial owner of the shares indicated	Filipino	600,000,000	600,000,000
Ma. Theresa V. Villar	3rd Floor Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Pinas City	The record owner is the beneficial owner of the shares indicated	Filipino	319,996,000	319,996,000
PNB Securities, Inc.	3rd Floor, PNB Financial Center, Roxas Boulevard, Pasay City, Metro Manila	The record owner is lodged under PCD Nominee Corporation	Filipino	178,088,000	178,088,000.00

Pursuant to its articles of incorporation amended on July 2, 2021, the Company has an authorized amount of capital stock of ₱1,000,000,000.00 divided into 4,000,000,000 common shares with a par value of ₱0.25 per share, which 2,750,000,800 common shares were issued as of the date of this report.

Objects and Purposes

The Company has been organized primarily to establish, conduct, and maintain the 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, suppliers, compounds, machinery, equipment, apparatus, appliances, instruments, or other lawful objects of commerce of all kinds and description for medical, pharmaceutical, hospital, dental, laboratory, 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 or juridical persons and entities, whether domestic or foreign; and to perform all acts necessary for the furtherance of its primary purpose including, but without limitation to guarantee obligations of and act as surety for, the loans and obligations of its subsidiaries, affiliates or associates, and/or to secure the same by mortgage, pledge on any assets of the corporation as may be authorized by the corporation's Board of Directors provided the same is considered beneficial to the corporation, without operating as a lending or financing corporation.

The Company's purpose also includes the following:

1. To purchase, acquire, hold, sell, lease, exchange, mortgage or otherwise deal in real and personal property, and to build, acquire, lease, and/or mortgage buildings and offices as may be necessary or useful to carry out the objectives and purposes of the corporation;

2. To purchase, hold, sell, exchange, or transfer or otherwise deal in shares of its own capital stock, bonds, or other obligations from time to time to such an extent and in such manner and upon such terms as its Board of Directors shall determine, provided that the corporation shall not use any of its funds or property for the purchase of its own shares of capital when such use would cause any impairment of the capital of the corporation, and provided further, that shares of its own capital stock belonging to the corporation shall not be voted upon directly or indirectly;

3. To borrow or raise money for any of the purposes of the corporation, and from time to time to draw, make, accept, endorse, execute, and issue bonds, debentures, notes, drafts, acceptances, bills of exchange, warrants and other negotiable and non-negotiable instruments and evidences of indebtedness and other securities; and to secure the payment thereof and of the interest thereon by mortgage upon or pledge of, or conveyance or assignment in trust of, the whole or any part of the property and franchises of the corporation, real, personal, and mixed, tangible or intangible, and wheresoever situated, whether at the time owned or thereafter acquired; and to issue, negotiate, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes;

4. To invest and deal with money and properties of the corporation in such manner as may from time to time be considered wise or expedient for the advancement of its interest and to sell, dispose of, or transfer the business, properties and goodwill of the corporation or any part thereof for such consideration and under such terms as it shall see fit to accept;

5. To buy, acquire, invest, hold, sell, dispose or otherwise deal in stocks, bonds, notes, drafts, debentures, acceptances, bills of exchange, commercial papers, warrants or other negotiable securities of other companies, ad to possess and exercise in respect thereof all the rights, powers and privileges of ownership, including all voting powers of any stock so owned;

6. To enter into any lawful arrangement for sharing profits, union of interest, unitization or farm out agreement, reciprocal concession, or cooperation, with any corporation, association, partnership, syndicate, entity, person or governmental, municipal or public authority, domestic or foreign, in the carrying on of any business or transaction deemed necessary, convenient or incidental to carrying out any of the purpose of this corporation;

7. To acquire or to obtain from the Government of the Philippines or any other sovereign, state or authority, national local or otherwise, or any corporation, company, partnership or person such charter, franchise, concessions, licenses, contracts, grants, decrees, rights, privileges, patents, trademarks, licenses, exemption, works and business concerns and undertaking as may be necessary and conducive to any of the objects or purpose of the corporation;

8. To conduct its business and maintain branch offices both within and outside the Philippines and any foreign countries and places and to purchase or otherwise acquire, hold, possess, convey, transfer or otherwise dispose of real and personal properties therein up to the extent that the same may be permissible under their respective laws;

9. To d or cause to be done any one or more of the acts and things herein set forth as its purpose, within or without the Philippines, and in any and all foreign countries, and to do everything necessary, conducive, desirable, or incidental to the accomplishment of the purposes or the exercise of any one or more of the purposes herein enumerated or which may be conveniently carried on in connection therewith, or which may be calculated directly or indirectly to enhance the value of or render profitable any business or

property of the corporation or which shall at any time appear conducive to or expedient for the protection or benefit of the corporation; provided that nothing shall be done in connection with any of the above objects which is prohibited by any law of the Philippines now or hereafter in force;

10. To invest in other companies and enter into joint venture agreement with any company, partnership, persons or government entities, domestic or foreign, for the advancement of its interest in varying out its primary purposes;

11. To product, process, manufacture, but sell or otherwise deal in any and all commodities, wares, equipment, facilities, supplies and merchandise of whatever kind and nature which may be deemed desirable and are legal objects of commerce, expect the manufacture of food and cosmetics;

12. To carry out all or any part of the foregoing objects and purposes and to exercise any or all of the foregoing rights and powers, and to do any and all of the foregoing acts and things, as principal, factor, agent, contractor, or otherwise, either alone or through or in conjunction with or jointly with, any individual, association or corporation;

13. To do and perform all acts and things necessary or incidental to the accomplishment of the foregoing purposes or the exercise of any or all the powers of a corporation for the benefit of the corporation and its stockholders.

The foregoing clauses shall each construed as purposes, objects and powers, and it is hereby expressly provided that the foregoing enumeration of specific purposes, objects and powers shall not be held to limit or restrict in any manner the powers of the corporation, and that they are in furtherance of, and in addition to, and not in limitation of, the general powers conferred upon the corporation by the laws of the Philippines or otherwise; nor shall the enumeration of one thing to be deemed to exclude another, although it is of like nature, not expressed.

Share Capital

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in the articles of incorporation and by-laws of the corporation. Subject to the approval by the Philippines SEC, it may increase or decrease its authorized capital stock by amending its articles of incorporation, provided that the change is approved by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting dully called for the purpose.

Under Philippine law, the shares of the corporation may either be with or without a par value. All of the Common Shares currently issued have a par value of ₱0.25 per share. In the case of par values shares, where a corporation issue shares at a price above par, whether for cash or otherwise, the amount by which the subscription price exceeds the par value is credited to an account designated as additional paid-in capital or paid-in surplus.

A corporation is empowered to acquire its own shares for legitimate corporate purpose, provided that the corporation has Unrestricted Retained Earnings or surplus profits sufficient to pay for the shares to be acquired. Examples of instances in which the corporation is empowered to purchase its own shares are; when the elimination of fractional shares arising out of share dividends is necessary or desirable, the purpose of shares of dissenting shareholders exercising their appraisal right, and the collection or compromise of an indebtedness arising out of an unpaid subscription. When a corporation repurchases its own shares, the shares become treasury shares, which may be resold at a price fixed by the Board of Directors of such corporation.

The Board is authorized to issue shares from treasury from time to time. Treasury shares may be issued to any person, corporation or association, whether or not a shareholder of the Company, including its officers or employees for such consideration in money as the Board may determine.

Voting Right of Shares

Each common share is entitled to one vote. At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the Company's books at the time of the closing of the transfer books for such meeting.

In accordance with Section 23 of the Revised Corporation Code of the Philippines, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him as of the relevant record date for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number his shares shall equal or by distributing such votes on the same principle among any number of candidates as the stockholder shall see fit.

The Company's common shares have full voting rights. However, the Revised Corporation Code provides that voting rights cannot be exercised with respect to shares declared by the Board of Directors as delinquent, treasury shares, or if the shareholder has elected to exercise his right of appraisal referred to below.

Dividend Rights of Common Shares

We are allowed to declare dividends out of our unrestricted retained earnings at such times and in such percentages as may be determined by our Board of Directors. Such determination will take into consideration factors such as debt service requirements, the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among other things.

A cash dividend declaration does not require any further approval from the shareholders. A stock dividend declaration requires the further approval of shareholders holding or representing not less than two-thirds of our outstanding capital stock. The Revised Corporation Code defines the term "outstanding capital stock" to mean the "total shares of stock issued under binding subscription contracts to subscribers or stockholders, whether fully or partially paid, except treasury shares." Such shareholders' approval may be given at a general or special meeting duly called for such purpose.

Rights of Shareholders to Assets of the Company

Each holder of a share is entitled to a pro rate share in the Company's assets available for distribution to the shareholders in the event of dissolution, liquidation and winding up.

Pre-emptive Rights

Pursuant to the Company's Articles of Incorporation, our stockholders have no pre-emptive right to subscribe to any issue or disposition of shares of any class of the Company.

Appraisal Rights

Under Philippine law, shareholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- In case any amendment to the corporation's articles of incorporation has the effect of changing and restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class;

- In case of any sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property or assets;

- In case of merger or consolidation;

- In case the corporation decides to invest its funds in another corporation or business for any purpose other than the primary purpose; and

- In case of extension or shortening of the term of corporate existence.

In these circumstances, the dissenting shareholder may require the corporation to purchase his shares at a fair value which, in default, is determined by three disinterested persons, one of whom shall be named by the stockholder, one by the corporation, and the third by the two thus chosen. The appraisal rights may be exercised by the dissenting stockholder by making a written demand within thirty (30) days after the date on which the vote was taken on the corporate action. The failure to make the demand within the period shall be deemed a waiver of the appraisal rights.

The payment to the dissenting stockholder of the fair value of his shares will only be available if the Company has unrestricted retained earnings to cover such purchase. From the time the shareholder makes a demand for payment until the Issuer purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of the share.

Derivative Rights

Under Philippine law, shareholders have the right to institute proceedings on behalf of the corporation in a derivative action in the even that the corporation itself is unable or unwilling to institute the necessary proceedings to rectify the wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors themselves are the malefactors.

Right of Inspection

It is a recognized right of a shareholder to inspect the corporate books, records of all business transactions of the corporation and the minutes of any meeting of the Board and shareholders at reasonable hours on business days and man demand a copy of excerpts from such records or minutes at his or her expense. On the other hand, the corporation may refuse such inspection if the shareholder demanding to examine or copy the records of the corporation has improperly used any information secured through any prior examination or was not acting in good faith or for a legitimate purpose in making his demand.

Right to Financial Statements

Another recognized right of a shareholder is the right to be furnished with the most recent financial statement of the corporation, which shall include a balance sheet as of the end of the last taxable year and a profit and loss statement for said taxable year, showing reasonable details its assets and liabilities and the results of its operations. At the meeting of shareholder, the board of directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements duly signed and certified by an independent certified public accountant.

Change in Control

There are no existing provisions in the Company's Articles of Incorporation of the By-Laws which will delay, defer or in any manner prevent changes in control of the Company.

Shareholders' Meetings

1. Annual or Regular Shareholders' Meetings

All Philippine corporation are required to hold an annual meeting of shareholders for corporate purposes, one of which is the election of directors. The Company's by-laws provide for annual meetings on the first Monday of June of each year, and if a legal holiday, then on the day following.

2. ***Special Shareholders' Meeting***

Special meetings of shareholders, for any purpose or purposes, may at any time be called by ether the President of the Company, upon the request by a majority of the Board of Directors to the President of the Company, or upon the written request of stockholders registered as the owners of at least 1/3 of the outstanding capital stock of the Company entitled to vote. Pursuant to Section 49 of the Revised Corporation Code, stockholders may propose the holdings of a special meeting and items to be included in the agenda.

Shareholders who, alone or together with other shareholders, hold at least 5.0% of the outstanding capital stock of a publicly listed company have the right to include items on the agenda prior to the regular/special stockholders'' meeting.

Moreover, shareholders of a publicly listed company holding at least 10.0% or more of the outstanding capital stock may call for special stockholder's' meeting, subject to the guidelines set under Section 49 of the Revised Philippine Corporation Code, SEC Memorandum Circular No. 7 (series of 2021) ("SEC Circular No. 7"), and other relevant regulations. The shareholders calling for the special stockholders' meeting must have held the shares for a period of at least one year prior to the receipt by the Corporate Secretary of a written call for a special stockholders' meeting.

3. ***Notice of Shareholders' Meeting***

Whenever shareholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and time of the meeting, and the purpose or purposes for which the meeting is called. Notices for the meetings shall be sent by the Secretary by personal delivery, by mail or electronic message at least 21 days for regular meetings and seven business days for special meetings, or such other period as may be allowed by applicable regulation, prior to the date of the meeting to each stockholder of record at his last known address. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. Notice of any meeting may be waived, expressly or impliedly, by any shareholder, in person or by proxy, before or after the meeting.

When the meeting of the shareholders is adjourned to another time or place, notice of the adjourned meeting need not be provided as long as the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is decided. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

For a special stockholders' meeting called pursuant to SEC Circular No. 7, the Board shall issue the notice to convene the stockholder's meeting at least seven days prior to the proposed date of the special meeting after a determination that the objectives and conditions in the written call are consistent with the requirements of SEC Circular No. 7.

4. ***Quorum***

Unless otherwise provided by law or an existing shareholders' agreement, shareholders who own or hold a majority of the outstanding capital shares must be present or represented in all regular or special meeting of shareholders in order to constitute a quorum, except in cases where the Revised Corporation Code provides a greater percentage vis-à-vis the total outstanding capital shares. If no quorum is constituted, the meeting shall be adjourned until shareholders who own or hold the requisite number of shares shall be present or represented.

5. ***Voting***

The shareholders may vote at all meetings the corresponding number of shares registered in their respective names, either in person or by proxy duly appointed as discussed herein below.

6. *Fixing Record Dates*

For purposes of determining the stockholders entitled to notice of, or to vote or be voted at any meeting of stockholders or any adjournments thereof, or entitled to receive payment of any dividends or other distribution or allotment of any rights, or for the purpose of any other lawful action, or for making any other determination of stockholders, the Board of Directors may provide that the stock and transfer book be closed at least 21 days for regular meeting and seven days for special meetings before the scheduled date of meeting. In lieu of closing the stock and transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of stockholders. A determination of stockholders of record entitled to notice of or to vote or be voted at a meeting of stockholders shall apply to any adjournment of meetings; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

7. *Proxies*

Shareholders may vote at all meetings the number of shares registered in their respective names, either in person or by proxy. A proxy shall be in writing and duly presented to and received by the Corporate Secretary for inspection and recording within five business days prior to the scheduled meeting. Unless otherwise provided in the proxy, it shall be valid only for the meeting at which it has been presented to the Corporate Secretary. No proxy shall be valid and effective for a period longer than five years at any one time.

8. *Issue of Shares*

Subject to otherwise applicable limitations, the Company may issue additional shares to any individual for consideration deemed fair by its Board, provided said consideration shall not be less than the par value of the issued shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent Shares) has been paid and proof of payment of the applicable taxes shall have been submitted to the Company's Corporate Secretary. Under the PSE Rules, only fully paid shares may be listed on the PSE.

9. *Transfer of Commons Shares*

All the issued and outstanding shares of the Corporation will be in scripless form through the electronic book-entry system of the Corporation's stock transfer agent and lodged with the depository agent as required by the PSE. Legal title to uncertificated shares will be shown in an electronic register of shareholders which shall be maintained by the stock transfer agent of the Corporation.

Under Philippine law, transfer of the Shares is not required to be effected on the PSE, but any of exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. All transfers of Shares on the PSE must be effected through a licensed stockbroker in the Philippines.

10. *Share Register*

The Company's share register is maintained at its principal office of its stock transfer agent, PNB Trust.

11. *Share Certificates*

Certificates representing the Shares will be issued in such denominations as shareholders may request, except that certificate will not be issued for fractional shares. For Shareholders who wish to split their certificates, they may do so through application to our stock transfer agent.

12. *Mandatory Tender Offer*

Pursuant to the SRC and its implementing rules and regulations, it is mandatory for any person or group of person or group of persons acting in concert to make a tender offer to all the shareholders of the target corporation before the intended acquisition of:

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company in one or more transactions within a period of 12 months; or

- Equity which would result in ownership of over 50% of the outstanding equity securities of a public company.

Pertaining to the first instance, when the securities tendered pursuant to such an offer exceed the number of shares that the acquiring person or group of persons is willing to acquire, the securities shall be purchased from each tendering shareholder on a pro rata basis according to the number of securities tendered by each security holder. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed to both the selling shareholders with whom the acquirer may have been in private negotiations with and the minority shareholders.

Pertaining to the second instance, the tender offer shall be made for all the outstanding voting shares. The sale of shares pursuant to the private transaction with the stockholders shall not be completed prior to the closing and completion of the tender offer.

Pertaining to the third instance, the acquirer shall be required to make a tender offer for all the outstanding equity securities to all remaining stockholders of the company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party. The acquirer shall be required to accept all securities tendered.

Further, no mandatory tender is required in:

- Purchases of shares from unissued capital shares unless such purchases will result in 50% or more ownership of shares by the purchaser or such percentage that is sufficient to gain control of the Board;

- Purchases from an increase in the authorized capital shares of the target company;

- Purchases in connection with a foreclosure proceeding involving a pledge or security where the acquisition is made by a debtor or creditor;

- Purchases in connection with a privatization undertaken by the government of the Philippines;

- Purchases in connection with a privatization undertaken by the government of the Philippines;

- Purchases in connection with corporate rehabilitation under court supervision;

- Purchases through an open market at the prevailing market price; or

- Purchases resulting from a merger or consolidation.

Fundamental Matters

The Revised Corporation Code provides that the following acts of the corporation require the approval of shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the corporation: (i) amendment of the articles of incorporation; (ii) removal of directors; (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of the corporation; (iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized; (v) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws; (vi) merger or consolidation; (vii) an increase or decrease in capital stock; (viii) dissolution; (ix) extension or shortening of the corporate term; (x) creation or increase of bonded indebtedness; (xi) declaration of stock dividends; (xii) management contracts with related parties; and (xiii) ratification of contracts between the corporation and a director or officer.

Further, the approval of shareholders holding a majority of the outstanding capital shares of a Philippine corporation, including non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

Accounting and Auditing Requirements

Philippine stock corporations are required to file copies of their annual financial statements with the SEC. in addition, public corporation are required to file quarterly financial statements (for the first three quarters) with the SEC. Those corporations whose shares are listed on the PSE are additionally required to file said quarterly and annual financial statements with the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of our operations for the preceding year. This report is required to include audited financial statements.

MANAGEMENT DISCUSSION AND RESULTS OF OPERATIONS

Factor Affecting Results of Operations

The Company's results of operations are affected by a variety of factors. Set out below is a discussion of the most significant factors that have affected the Company's results in the past, and which we expect to affect its results in the foreseeable future. Factors other than those discussed below could also have a significant impact on the Company's results and financial condition.

Philippine macroeconomic conditions and trends

The Philippines is one of the most dynamic economies in the East Asia Pacific region. With increasing urbanization, a growing middle class, and a large and young population, the Philippines' economy dynamism is rooted in strong consumer demand supported by a vibrant labor market and robust remittances. Business activities are buoyant with notable performance in the services sector including business process outsourcing, real estate, tourism and finance and insurance industries. However, real economic growth has been challenged in the preceding and current year due to the outbreak of the Covid-19 pandemic.

The COVID-19 Pandemic

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020, and in March 2020 it was declared as a pandemic by the World Health Organization ("WHO"). As of June 30, 2021, there had been about 180 million confirmed cases in the world, as reported to the WHO.

With the declaration of a nationwide "State of Public Health Emergency: on May 08, 2020, the Government has taken measures in varying degrees across the country to contain the spread of the virus including a nationwide Lockdown and the mobilization of necessary resources to undertake critical, urgent and appropriate medical measures. One of the major resources mobilized by the government was the ₱275 billion "Bayanihan to Heal as One Act" (Bayanihan 1), from which the DOH has utilized ₱4.36 billion to procure medical equipment as of December 31, 2020.

The pandemic presented Medilines with opportunities to strengthen its valuable role as part of the healthcare industry. The Company is proud to tb ethe frontline of the country's fight against COVID-19 through the urgent distribution of related devices. From March 2020 up to June 2021, four (4) CT scans and seven (7) mobile x-rays have been deployed, helping patients with early detection of possible complications due to COVID-19 and providing our frontliners with a better understanding of the patient's condition for proper treatment. 126 dialysis machines and 63 portable reverse osmosis machines have also been installed in Intensive Care Units (ICUs) as an estimate of 30% of patients hospitalized with COVID-19 develop moderate or severe kidney injury. These purchases make use of the government's emergency funds and other aid for COVID-19 relief; and these are on top of other purchases by customers considering the company's business as usual. Moreover, the pandemic has also highlighted the importance of health system resilience. The capacity of the health system in the country in terms of crisis preparedness and response, and its ability to delivery essential health services, were placed in the stoplight. Thus, investments in the health system to increase its capacity, including the much-needed modernization of hospitals across the country, became the priorities of the DOH in the short and medium-term.

Ability to effectively manage costs and expenses.

The Company's operations are streamlined. The Company has a lean team that includes select individuals with technical and clinical knowledge about its product lines. The Company focus its selling and marketing efforts on a select group of customers, specifically those who have budget for capital intensive projects and advanced medical equipment. The Company works with its select principals who are world renowned market leaders in its chosen categories and have established names in the healthcare industry, worldwide. The principals manage the importation, processing of major regulatory requirements, marketing programs, shipment of products direct to customer, installation, training, preventive maintenance, and after sales service. Medilines does not need to invest in a full service and marketing team, costs of importation, huge warehouse space, and a show room, and can instead focus on lead generation, relationship building with customers, biddings, simple on-site product demonstrations, and over-all project coordination. The Company's warehouse only store consumables, accessories and other third-party items that are packaged with the equipment. These items are guided by a "no PO no purchase" policy to avoid excess stocks.

Competition

The medical industry in the Philippines is very competitive. The Company competes with various companies selling medical equipment falling under the same product categories that it offers based on factors such as price, quality, and brand recognition, or a combination of these factors. Moreover, the Company anticipates competition from new market entrants and joint partnerships between national and international operators, as well as with current and future players in the areas included in its expansion strategy.

In terms of the Company current product offerings and pricing, it has identified the industry's major players such as Fernando Medical Enterprises, Inc. (recently purchased by IDS Medical Systems Philippines, Inc.), Cosmo Medical Inc., Corbridge Philippines, 99 Commercial Inc., RTK Marketing Inc., Technomed International Inc., NPK Medical Trading Inc., Biosyn Healthcare Systems Inc., Himex Corporation, Shimadzu Philippine Corporation, Biosite Medical Instruments Inc., Medicotek Trading (United Imaging), Sunfu Solutions Inc., Felea Biomed Enterprises, and Variance Trading Corporation.

It is important to note that the abovementioned distributors are direct competitors of Medilines in varying degrees, according to the category of medical devices they carry, as not one of them distributes the exact same categories as Medilines does.

Nonetheless, the Company believes that they are well positioned to compete given its competitive advantages including, among others, the Company's good reputation in the industry and association with top quality products, its partnership with well-renowned leading brands in its categories, its years of relationship with major hospitals in the country, and a management team with a wealth of experience in its field.

Seasonality

The purchase of medical equipment does not have seasonality as it is driven mainly by available funding for new hospitals, facility expansions, and replacement of old machines or outdated technology.

CRIICAL ACCOUNTING POLICIES

Critical accounting policies are those that are both (i) relevant to the presentation of the Company's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgements become even more subjective and complex. In order to provide an understanding of how the Company's management forms its judgements about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgements to different circumstances, the Company has identified significant accounting judgements, estimates and assumptions discussed in Note 3 of the Audited Financial Statements as of December 31, 2022.

The main items subject to estimates are assumptions by management include, among others, impairment of allowances of expected credit losses, impairment of trade and other receivables and due from related parties, determination of net realizable value of inventories, estimation of useful lives of property and equipment, and impairment of non-financial assets.

Effective January 1, 2019, the Company has adopted PFRS 16 (Leases) resulting in changes in the accounting of its leas transactions. Prior to 2019, lease payments in respect of its store and warehouse facilities were treated as rent expense. Upon adoption of this standard, the present value of future lease payments throughout the expected lease period, including probable lease extensions, are recognized as lease liability and the corresponding right-of-use asset I recognized in view of the right obtained by the lessee to use the relevant facilities. Under the Company's statements of comprehensive income, amortization and interest expense on lease liability are recognized in 2019 while rent expense was recognized in 2018.

RESULTS OF OPERATIONS

Statement of Comprehensive Income

	2023	**2022**	**2021**	**2020 (as restated)**
	₱'000*	**₱'000***	**₱'000***	**₱'000***
Revenue	679,882	1,964,800	1,585,028	1,466,659
Direct cost	436,961	1,581,474	1,252,867	1,222,987
Gross profit	242,921	383,326	332,161	243,672
Operating expenses	137,773	124,802	126,124	81,754
Operating profits	105,147	258,524	206,037	161,918
Other income (charges) - net	(7,651)	(1,624)	3,839	(14,684)
Profit before tax	97,496	256,900	209,876	147,234
Tax expense	25,034	64,929	40,244	44,170
Net profit	72,462	191,971	169,632	103,064
Other comprehensive income (loss)	1,892	(59)	(1,627)	(297)
Total comprehensive income	74,353	191,912	168,005	102,767
Basic and diluted earnings per share	0.03	0.07	0.09	0.06

Notes:
**except for basic and diluted earnings per share.*

For the year ended December 31, 2023, compared to the year ended December 31, 2022

	For the year ended, December 31,		Horizontal analysis	Vertical Analysis	
	2023	2022		2023	2022
	In ₱ Thousands	In ₱ Thousands	% Change		
Revenue	679,882	1,964,800	-65%	100%	100%
Direct cost	436,961	1,581,474	-72%	64%	80%
Gross Profit	242,921	383,326	-37%	36%	20%
Operating expenses	137,773	124,802	10%	20%	6%
Operating profits	105,147	258,524	-59%	15%	13%
Other income (charges) - net	(7,651)	(1,624)	371%	-1%	0%
Profit before tax	97,496	256,900	-62%	14%	13%
Tax expense	25,034	64,929	-61%	4%	3%
Net Profit	72,463	191,972	-62%	11%	10%

Revenues decreased from ₱1,965 million for the year ended December 31, 2022, to ₱ 680 million for the full year ended December 31, 2023. The 65% decrease in the revenue was due to 2023 orders that are expected to be completed in 2024.

Direct costs decreased by 72% from ₱1,581 million for the year ended December 31, 2022, to ₱ 437 million for the year ended December 31, 2023. The decrease in direct costs were in line with the decrease in sales for the year ended December 31, 2023.

Operating expenses increased by 10% from ₱125 million for the year ended December 31, 2022, to ₱138 million for the year ended December 31, 2023, due to addition equipment acquired by the company that are subject to depreciation. Transportation expenses also increased due to site visits to projects in different parts of the country.

Other charges – net, were realized during the year ended December 31, 2023, due to foreign exchange loss. The foreign exchange loss was realized for the Cyclotron Projects that are out of and not part of the Company's standard portfolio of products and Management does not recognize this charge has a reoccurring charge to operations.

Tax expense for the year ended December 31, 2023, is ₱25 million, a decrease of 61% from ₱65 million in the year ended December 31,2022. The decrease was due to the decrease in sales realized during the fiscal year ended December 31, 2023.

As a result of the foregoing, the Company's net income decreased by 61% from ₱192 million in the year ended December 31, 2022, to ₱72 million in the year ended December 31, 2023.

For the year ended December 31, 2022, compared to the year ended December 31, 2021

	For the year ended, December 31,		Horizontal analysis	Vertical Analysis	
	2022	2021		2022	2021
	In ₱ Thousands		% Change		
Revenue	1,964,800	1,585,028	24%	100%	100%
Direct cost	1,581,474	1,252,867	26%	80%	79%
Gross profit	383,326	332,161	15%	20%	21%
Operating expenses	124,802	126,124	-1%	6%	8%
Operating profits	258,524	206,037	25%	13%	13%
Other income (charges) - net	(1,624)	3,839	-142%	0%	0%
Profit before tax	256,900	209,876	22%	13%	13%
Tax expense	64,929	40,244	61%	3%	3%
Net Profit	191,972	169,632	13%	10%	11%

Revenues increased from ₱1,585 million for the year ended December 31, 2021, to ₱1,965 million for the full year ended December 31, 2022. The 24% increase in the revenues was primarily attributed to the increase in sales of Cancer Therapy machines.

Direct costs increased by 26% from ₱1,253 million for the year ended December 31, 2021, to ₱1,581 million for the year ended December 31, 2022. The increase in direct costs were inline with the increase in sales for the year ended December 31, 2022, and the slight increase in prices of the equipment sold.

Operating expenses decreased by 1% from ₱126 million for the year ended December 31, 2021, to ₱125 million for the year ended December 31, 2022, due to the proper management of costs during the year. There were also minimal operational costs due to the implementation of flexible workdays for employees who are not working on the field. Further, the opening of the new Company warehouse also saved the company from warehouse lease costs.

Other charges – net, were realized during the year ended December 31, 2022, due to foreign exchange loss. The foreign exchange loss was realized for the Cyclotron Projects that are out of not part of the Company's standard portfolio of products and Management does not recognize this charge has a reoccurring charge to operations.

Tax expense for the year ended December 31, 2022, is ₱65 million, an increase of 61% from ₱40 million in the year ended December 31,2021. The increase was due to the increase in sales realized during the fiscal year ended December 31, 2022.

As a result of the foregoing, the Company's net income increased by 13% from ₱170 million in the year ended December 31, 2021, to ₱192 million in the year ended December 31, 2022.

For the year ended December 31, 2021, compared to the year ended December 31, 2020

	For the year ended, December 31,		Horizontal analysis	Vertical Analysis	
	2021	2020		2021	2020
	In ₱ Thousands		% Change		
Revenue	1,585,028	1,466,659	8%	100%	100%
Direct cost	1,252,867	1,222,987	2%	79%	83%
Gross profit	332,161	243,672	36%	21%	17%
Operating expenses	126,124	81,754	54%	8%	6%
Operating profits	206,037	161,918	27%	13%	11%
Other income (charges) - net	3,839	(14,684)	-126%	0%	-1%
Profit before tax	209,876	147,234	43%	13%	10%
Tax expense	40,244	44,170	-9%	3%	3%
Net pforit	169,632	103,064	65%	11%	7%

Revenues increased from ₱1,467 million for the year ended December 31, 2020, to ₱1,585 million for the full year ended December 31, 2021. The 8% increase in the account was primarily attributable to the increase in sales of Cancer Therapy machines.

Direct costs increased by 2% from ₱1,223 million for the year ended December 31, 2020, to ₱1,253 million for the year ended December 31, 2021, due to higher costs of inventory sold during the year.

Operating expenses increased by 54% from ₱82 million for the year ended December 31, 2020, to ₱126 million for the year ended December 31, 2021, due to the increases in salaries & wages, professional fees, freight & handling, and repairs & maintenance.

Other income – net increased by 126% from a charged – net of ₱15 million for the year ended December 31, 2020, to ₱4 million for the year ended December 31, 2021, due primarily to the increase in other income and interest income.

Tax expense for the year ended December 31, 2021, is ₱40 million, a decrease of 9% from ₱44 million in the year ended December 31, 2020. The decrease was due to the tax benefits received for the year ended December 31, 2021.

As a result of the foregoing, the Company's net income increased by 65% from ₱103 million in the year ended December 31, 2020, to ₱170 million in the year ended December 31, 2021.

FINANCIAL CONDITION

	2023	2022	2021	2020
			In thousand ₱	
Current Assets				
Cash	₱ 95,948	₱ 102,718	₱ 930,811	₱ 62,450
Trade and other receivables - net	1,905,781	1,766,170	1,477,307	1,620,393
Contract assets	1,411,784	1,768,036	1,195,263	961,588
Inventories - net	74,416	76,924	120,422	230,727
Prepayments and other current assets	133,457	109,144	90,917	27,749
	3,621,386	3,822,992	3,814,720	2,902,907
Noncurrent Assets				
Property and equipment - net	193,683	183,253	155,443	165,976
Right-of-use asset - net	-	-	1,171	5,802
Guarantee deposits	2,366	17,464	12,172	2,016
Deferred tax assets	16,212	2,366	2,366	9,380
	212,261	203,083	171,152	183,174
Total Assets	**₱ 3,833,647**	**₱ 4,026,075**	**₱ 3,985,872**	**₱ 3,086,081**

	2023	2022	2021	2020
Current Liabilities				
Trade and other payables	₱ 1,266,324	₱ 1,702,808	₱ 1,367,947	₱ 1,167,862
Loans and other borrowings	400,000	181,634	578,522	1,119,980
Lease liabilities	-	-	1,342	1,929
Income tax payable	15,087	31,283	-	37,289
Contract liabilities	-	-	21,074	3,606
	1,681,411	1,915,725	1,968,885	2,330,666
Noncurrent Liabilities				
Loans and other borrowings	-	-	69,183	90,711
Deposit for future stock subscription	-	-	-	-
Lease liability	-	-	-	4,159
Retirement benefit obligation	1,764	3,918	7,026	4,343
	1,764	3,918	76,209	99,213
Total Liabilities	1,683,176	1,919,643	2,045,094	2,429,879
Equity				
Capital stock	687,500	687,500	687,500	400,000
Treasury shares	(2,332)	(813)	-	-
Additional paid-in capital	1,084,071	1,084,071	1,084,071	-
Retained earnings	381,635	337,969	171,442	256,810
Deposit for future subscription		-	-	-
Revaluation reserves	(403)	(2,295)	(2,235)	(608)
	2,150,471	2,106,432	1,940,778	656,202
Total Liabilities and Equity	**₱ 3,833,647**	**₱ 4,026,075**	**₱ 3,985,872**	**₱ 3,086,081**

As at December 31, 2023 compared to as at December 31, 2022

	December 31, 2023	December 31, 2022	Horizontal Analysis	Vertical Analysis December 31, 2023	)ecember 31 2022
	In ₱ Thousands		% Change	% of Total	
Total Current assets	3,621,386	3,822,992	-5%	94%	95%
Total Noncurrent assets	212,261	203,083	5%	6%	5%
Total Assets	**3,833,647**	**4,026,075**	-5%	100%	100%
Total Current liabilities	1,681,411	1,915,725	-12%	44%	48%
Total Noncurrent liabilities	1,764	3,918	-55%	0%	0%
Total Liabilities	1,683,176	1,919,643	-12%	44%	48%
Equity	2,150,471	2,106,432	2%	56%	52%
Total Liabilities and Equity	**3,833,647**	**4,026,075**	-5%	100%	100%

Total asset as of December 31, 2022, were ₱4,026 million compared to ₱3,834 million as of December 31, 2023, or a 5% decrease. This was due to the following:

- Cash decreased by 7% from ₱103 million as of December 31, 2022, to ₱96 million in December 31, 2023.
- Trade and other receivables increased by 8% from ₱1,766 million as of December 31, 2022, to ₱1,906 million in December 31, 2023, due to billed projects that are based on percentage of completion.
- Contract assets decreased by 20% from ₱1,768 million as of December 31, 2022, to ₱1,412 million as of December 31, 2023, due to billed projects that are based on percentage of completion.
- Property and equipment increased by 6% from ₱183 million as of December 31, 2022, to ₱194 million as of December 31, 2023.

Total liabilities as of December 31, 2023, were ₱1,683 million compared to ₱1,919 million as of December 31, 2022, or a 12% decrease despite the 120% increase in loans and other borrowings. This was due to:

- Trade and other payables decreased by 26% from ₱1,703 million as of December 31, 2022, to ₱1,266 million as of December 31, 2023.

Total stockholders' equity increased by 2% from ₱2,106 million as of December 31, 2022, to ₱2,150 million as of December 31, 2023, due to the addition in retained earnings.

As at December 31, 2022 compared to as at December 31, 2021

	December 31, 2022	December 31, 2021	Horizontal Analysis	Vertical Analysis December 31, 2022	December 31, 2021
	In ₱ Thousands		% Change	% of Total	
Total Current assets	3,822,992	3,814,720	0%	95%	96%
Total Noncurrent assets	203,083	171,152	19%	5%	4%
Total Assets	**4,026,075**	**3,985,872**	1%	100%	100%
Total Current liabilities	1,915,725	1,968,885	-3%	48%	49%
Total Noncurrent liabilities	3,918	76,209	-95%	0%	2%
Total Liabilities	1,919,643	2,045,094	-6%	48%	51%
Equity	2,106,432	1,940,778	9%	52%	49%
Total Liabilities and Equity	**4,026,075**	**3,985,872**	1%	100%	100%

Total asset as of December 31, 2021, were ₱3,986 million compared to ₱4,026 million as of December 31, 2022, or a 1% increase. This was due to the following:

- Cash decreased by 89% from ₱931 million as of December 31, 2021, to ₱103 million in December 31, 2022.

- Trade and other receivables increased by 20% from ₱1,477 million as of December 31, 2021, to ₱1,766 million in December 31, 2022, due to revenue recognition based on project percentage of completion that is not yet collected.
- Contract assets increased by 48% from ₱1,477 million as of December 31, 2021, to ₱1,768 million as of December 31, 2022, due to revenue recognition based on project percentage of completion that is not yet billed.

- Property and equipment increased by 18% from ₱155 million as of December 31, 2021, to ₱183 million as of December 31, 2022.

Total liabilities as of December 31, 2022, were ₱1,919 million compared to ₱2,045 million as of December 31, 2021, or a 6% decrease. This was due to the following:

- Loans and other borrowings decreased by 69% from ₱578 million as of December 31, 2021, to ₱181 million as of December 31, 2022.

- Lease liability decreased by 44% from ₱7 million as of December 31, 221 to ₱4 million as of December 31, 2022.

Total stockholders' equity increased by 9% from ₱1,940 million as of December 31, 2021, to ₱2,106 million as of December 31, 2022, due to the addition in retained earnings.

As at December 31, 2021, compared to as at December 31, 2020

	December 31, 2021	December 31, 2020	Horizontal Analysis	Vertical Analysis	
				December 31, 2021	December 31, 2020
	In ₱ Thousands		% Change	% of Total	
Total Current assets	3,814,720	2,902,907	31%	96%	94%
Total Noncurrent assets	171,152	183,174	-7%	4%	6%
Total Assets	**3,985,872**	**3,086,081**	29%	100%	100%
Total Current liabilities	1,968,885	2,330,666	-16%	49%	76%
Total Noncurrent liabilities	76,209	99,213	-23%	2%	3%
Total Liabilities	2,045,094	2,429,879	-16%	51%	79%
Equity	1,940,778	656,202	196%	49%	21%
Total Liabilities and Equity	**3,985,872**	**3,086,081**	29%	100%	100%

Total assets as of December 31, 2020, were ₱3,086 million compared to ₱3,976 million as of December 31 ,2021, or a 29% increase. This was due to the following:

- Cash increased by 1,390% from ₱62 million as of December 31, 2020, to ₱931 million as of December 31, 2021.

- Contract assets increased by 24% from ₱961 million as of December 31, 2020, to ₱1,195 million as of December 31, 2021, due to revenue recognition based on percentage of completion that is not yet billed.

- Prepayments and other current assets increased by 228% from ₱28 million as of December 31, 2020, to ₱91 million as of December 31, 2021, due to the increase in excess input tax credit.

- Guarantee deposits increased by 17% from ₱2 million as of December 31, 2020, to ₱2.4 million as of December 31, 2021.

- Deferred tax assets increased by 30% from ₱9 million as of December 31, 2020, to ₱12 million as of December 31, 2021

Total liabilities as of December 31, 2020, were ₱2,430 million compared to ₱2,045 million as of December 31, 2021, or a 16% decrease. This was due to the following:

- Current loans and other borrowings decreased by 48% from ₱1,120 million as of December 31, 2020, to ₱579 million as of December 31, 2021, due to the repayment of Trust Receipts and Notes Payables.

- Income tax payable decreased by 100% from ₱37 million as of December 31, 2020, to ₱0 as of December 31, 2021.

- Noncurrent loans and other borrowings decreased by 24% from ₱91 million as of December 31, 2020, to ₱69 million as of December 31, 2021, due to the repayment of Trust Receipts and Notes Payables.

- Lease liability as of December 31, 2021, is at zero compared to ₱4 million as of December 31, 2020.

Total stockholders' equity increased by 196% from ₱656 million as of December 31, 2020, to ₱1,941 million as of December 31, 2021, due to the addition in retained earnings and the increase in capital stock and additional paid-in capital contributed by the Company's December 7, 2021 initial public offering.

KEY PERFORMANCE INDICATORS

The Company has set out below certain performance indicators that it employs in period-to-period analysis and comparison of financial data:

	For the years ended December 31,			
	2023	**2022**	**2021**	**2020**
Revenues (₱ thousands)	679,882	1,964,800	1,585,028	1,466,659
Revenue growth (%)	-65%	24%	8%	10%
Gross profit margin (%)	36%	20%	21%	17%
Net profit (₱ thousands)	72,462	191,972	169,632	103,064
Net profit margin (%)	11%	10%	11%	7%

Note:

1) *Gross profit margin is Gross Profit over Revenues*
2) *Net profit margin is Net profits over Revenues*

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

In Php Thousands	2023	2022	2021	2020
Net cash from (used in) operating activities	(171,540)	(298,875)	288,747	(674,026)
Net cash from (used in) investing activities	(23,281)	(35,953)	31,468	(125,333)
Net cash from (used in) financing activities	188,051	(493,685)	548,109	799,493
Effect of exchange rate changes on cash		419	37	(1,035)
Net increase (decrease) in cash	(6,770)	(828,094)	868,361	(901)
Cash at beginning of year / period	102,717	930,811	62,450	63,351
Cash at end of year / period	**95,947**	**102,717**	**930,811**	**62,450**

Contractual Obligations and Commitments

The following table summarizes the Company's contractual obligations and commitments as of December 31, 2022:

	Total (in ₱ thousands)	2023	2023 to 2027	Over 5 years
Loans and other borrowings	400,000	400,000	-	-
Trade and other payables	1,266,324	1,266,324	-	-
Total	**1,666,324**	**1,666,324**	**-**	**-**

Indebtedness

The Company had outstanding loan and other borrowings of ₱1,211 million, ₱648 million, ₱181 million, and ₱400 million as of December 2020, 2021, 2022, and 2023 respectively.

Off-Balance Sheet Arrangements

As of December 31, 2023, there were no off-balance sheet arrangements or obligations that were likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK

The Company is exposed to various types of market risks in the ordinary course of business, including interest rate risk, liquidity risk, and credit risk.

Interest Rate Risk

The Company is exposed to changes in market interest rates through its cash in banks, which are subject to variable interest rates. All other financial assets and financial liabilities are either non-interest-bearing or subject to fixed interest rates.

Liquidity Risk

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

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

Credit Risk

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

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

FINANCIAL STATEMENTS

Please see accompanying 2023 Audited Financial Statements (2023 AFS)

INDPENDENT AUDITORS

The financial statements of the Company as of and for the year ended December 31, 2023, and 2022, were audited by Punongbayan & Araullo (Grant Thornton), independent auditors, as stated in their report attached to this Annual Report.

Punongbayan & Araullo has acted as the Company's external auditor since December 7, 2020. Mr. James Joseph Benjamin J. Araullo is the current audit partner for the Company and has served as such since December 7, 2020. The Company has not had any material disagreements on accounting and financial disclosures with its current external auditor for the same periods or any subsequent interim period.

Punongbayan & Araullo, has neither shareholdings in the Company nor any right, whether legally enforceable or not, to nominate persons or to subscribe for the securities of the Company. Punongbayan & Araullo will not receive any direct or indirect interest in the Company or its securities (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees paid to Punongbayan & Araullo for professional services rendered in respect of the audit of the Company's historical financial statements, excluding out-of-pocket expense incidental to such services an excluding fees directly related to the Offer:

	2023	**2022**
Audit and Audit Related Fees (in ₱)	980,000	920,000

The Company did not engage the services of the External Auditors and has not paid other fees, except as stated above.

PART 3 – CONTROL AND COMPENSATION INFORMATION

The Company's overall management and supervision are undertaken by the Board. The Company's executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the business operations, financial condition, and results of operations for its review. Currently, the Board consists of seven members, of which four are independent directors. All the directors named below were elected at the special meeting of the stockholders of the Company held on 2 August 2021. All directors will hold office until their successors have been duly elected and qualified.

The following table sets forth the Board of Directors of the Company:

Name	**Age**	**Position**	**Citizenship**
Virgilio Villar	68	Chairman of the Board	Filipino
Ma. Theresa V. Villar	67	Director	Filipino
Maria Patricia Dolor V. Yambing	41	Director	Filipino
Norman K. Macapagal	69	Independent Director	Filipino
Fernando Sixto V. Segovia	63	Independent Director	Filipino
Brian N. Edang	45	Independent Director	Filipino
Luis Angel G. Aseochoe	62	Independent Director	Filipino

The following table sets forth the Company's key executive and corporate officers (Senior Management)

Name	**Age**	**Position**	**Citizenship**
Maria Patricia Dolor V. Yambing	41	President and CEO	Filipino
Maria Carmela D. Ochoa	43	CFO, Treasurer and Investor Relations Officer	Filipino
Daniel C. Zulueta	61	Corporate Secretary	Filipino

The following states the business experience of the Company's incumbent directors and officers for the last five (5) years:

Virgilio B. Villar, *Chairman of the Board*

Mr. Villar, 68, took over management of Medilines in 2008 and successfully managed it over the years to become one of the top distributors of medical devices in the Philippines. He was President and CEO of Medilines from 2008 to 2020. Pivotal to his success in the medical industry was his 21 years of experience as Managing Director of B. Braun Medical Supplies, Inc., a German multinational healthcare company in the Philippines. Before moving to the medical devices and equipment industry, Mr. Villar held sales and marketing position in various multinational companies including Unilever and Scott Paper Philippines. Mr. Villar graduated from the University of the Philippines with a degree in Bachelor of Science in Industrial Engineering and a degree in Master of Business Administration. He also took Advanced Management Studies in Cologne, Germany.

Theresa V. Villar, *Director*

Mrs. Villar, 67, joined Medilines as Human Resource Consultant in 2022. The culmination of hear wealth of experience in Human Resources was her 17 years in San Miguel Corporation, where she was VP from 1995 to 1998. Prior to this, she was Human Resources Training Manager for various companies including Western Minolco, Fuji Xerox, and National Food Authority. Mrs. Villar graduated from the University of the Philippines with a degree in Bachelor of Science in Psychology.

Maria Patricia Dolor V. Yambing, ***Director, President and CEO***

Mrs. Yambing, 41, is a graduate of Ateneo de Manila University with a degree in Bachelor of Science in Management in 2004. She took her Double-Degree Asia MBA Program in National University of Singapore and in Fudan University in Shanghai from 2013 to 2015. She became the Business Unit Head of Asya Medika, Inc. from 2015 to 2020, before joining Medilines as President and CEO. She held marketing positions in various multinational companies including Microsoft, Kimberly Clark, and Sara Lee.

Atty. Luis Angel G. Aseochoe, ***Independent Director***

Mr. Aseochoe, 61, is one of the owners and senior partners of the Chavez Miranda Aseoche Law Offices. He has more than 35 years of legal experience, spending 19 years of it with the Chavez Miranda Aseoche Law Offices. Prior to being a Director, he held positions in the Philippine Senate as Legislative Staff Office V and VI, Chief of Staff under Senator Anna Dominique Coseteng, and Senior Associate for Chavez Laureta & Associates. He is a graduate of Bachelor of Laws in U.P. Diliman and has a degree in A.B. Political Science, also taken in U.P. Diliman.

Fernando Sixto V. Segovia, ***Independent Director***

Mr. Segovia, 63, is a Managing Director at ADP Pharma Corporation. He has held several directorship and head executive positions in various healthcare companies, including Pascual Total health, Exeltis Pharma, Novartis Healthcare, InterMed Marketing Philippines, Bristol Myers Squibb, and Pfizer Philippines. He was the President and majority owner of Seville Pharmaceuticals Incorporated. He is a took his Master of Business Administration Senior Executive Program in Ateneo de Manila. He graduated from San Beda College with a degree in Bachelor of Science in Management.

Norman K. Macapagal, ***Independent Director***

Mr. Macapagal, 69, is the President of EEI Limited Incorporated. He is also a board trustee in Philippine Constructors' Association and member of the JCI Senate Philippines. He is a candidate for Master of Business Administration in Ateneo de Manila Graduate School and has a degree in Bachelor of Science in Industrial Engineering from University of the Philippines.

Brian N. Edang, ***Independent Director***

Mr. Edang 44, is a Certified Public Accountant. He graduated cum laude with a Bachelor of Science in Accountancy from the University of St. La Salle in Bacolod. He is currently the Chief Financial Officer & Head of Investor Relations of Vista Land & Lifescapes, Inc. he is also Treasurer and Director of the following companies: Vista Residences Incorporated, Brittany Corporation, Crown Asia Properties Incorporated, Communities Philippines Incorporated, and Camella Homes Incorporated. Prior to joining the group, he was with SGV & Co. (EY Philippines) as an external auditor from 1999 to 2004. He is the Head Investor Relations of Vista Land from 2007 up to present, as well as their Chief Financial Officer since November 2018. Mr. Edang is a Member of the Philippine Institute of Certified Public Accountants (PICPA) and the Financial Executives Institute of the Philippines (FINEX).

Maria Carmela D. Ochoa, ***Treasurer, CFO and Investor Relations Officer***

Mrs. Ochoa, 44, is a Certified Public Accountant. She took her Masters in Business Administration at De La Salle University Manila. Prior to joining the Company, she held senior finance and auditor positions for 18 years with various companies, which include SGV, San Miguel Corporation, Bayan Telecommunications, Inc., ABS-CBN Broad Casting Corporation, and VDT-3 Services Inc. Mrs. Ochoa is a member of the Philippine Institute of Certified Public Accountants (PICPA).

Daniel C. Zulueta, ***Corporate Secretary***

Mr. Zulueta, 60, graduated form the Far Eastern University with a degree in Bachelor of Arts in Economics and a degree in Bachelor of Science in Commerce, receiving the highest honors in both degrees. Prior to joining the Company, he held positions in Sales, Product Management, and Business Development for 23 years. He is also the General Manager of the Company.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS OF DIRECTORS AND SENIOR MANAGEMENT

To the best of its knowledge, none of the above-named directors or executive officers has been subject to the following:

- Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy within two years prior to that time;
- any conviction by final judgement, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- any order, judgement or decree, not subsequently reverse, suspend or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporary enjoining, barring, suspending or otherwise limiting his or her involvement in any type of business, securities, commodities, or banking activities; or
- found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

FAMILY RELATIONSHIPS

Mr. Virgilio B. Villar and Mrs. Maria Theresa V. Villar, both directors, are spouses. Mrs. Maria Patricia Dolor V. Yambing is a Director, President and CEO, and is the daughter of Mr. Virgilio B. Villar and Maria Theresa V. Villar. Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among the directors, executive officers, and shareholders.

BOARD COMMITTEES

Specific responsibilities of the Board are delegated to the Audit Committee and Corporate Governance Committees.

Audit Committee

The Audit Committee shall enhance the Board's oversight capability over the company's financial reporting, internal control system, internal and external audit processes, and compliance with applicable laws and regulations. It shall be responsible for the setting up of the Internal Audit Department and for the appointment of the Internal Auditor as well as the independent external auditor who shall both report directly to the Audit Committee. It shall monitor and evaluate the adequacy and effectiveness of the internal control system. Further, the Audit Committee shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend meetings, and adequate resources to enable it to effectively discharge its functions.

The committee shall consist of at least three appropriately qualified non-executive directors, at least two (2) of whom shall be independent directors, including the committee's chairperson. Preferably, all of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing, or related financial management expertise or experience. The chairman of the Audit Committee should not be the chairman of the Board or of any other committees.

The Audit Committee also has the duty and responsibility to assist the Board of Directors in the performance of the functions of a Related Party Transactions Committee and Board Risk Oversight Committee.

The committee is chaired by Brian N. Edang and has Mr. Virgilio B. Villar and Fernando Sixto Segovia as members.

Corporate Governance Committee

The Corporate Governance Committee has the duty and responsibility to assist the Board of Directors in the performance of its corporate governance responsibilities, including the functions of a nomination and remuneration committee.

It should be composed of at least three members, at least two (2) of whom shall be independent directors including the chairman of the committee.

The committee is chaired by Fernando Sixto V. Segovia and has Patricia Yambing and Brian Edang as members.

COMPLIANCE WITH CORPORATE GOVERNANCE PRACTICES

The Board has adopted the Manual on Corporate Governance ("Manual"), which institutionalizes the principles of good corporate governance in the entire organization. We believe that it is a necessary component of sound strategic business management, hence, we undertake efforts to create awareness within the organization.

The Manual provides that it is the Board that has the primary responsibility for the governance of the corporation. In addition to setting the policies for the accomplishment of corporate objectives, it has the duty to provide an independent check on the Management. The Board is mandated to attend its regular and special meetings in person or through teleconferencing.

In adopting the Manual, we understand the responsibilities of the Board and its members, in governing the conduct of the business of the Company, the Board Committees, in focusing on specific board functions to aid in the optimal performance of its roles and responsibilities, and the officers, in ensuring adherence to corporate principles and best practices.

EXECUTIVE COMPENSATION

The following are the Company's president and four most highly compensated executive offers for the year ended December 31, 2023:

Rank	Name	Position
1st	Ma. Patricia V. Yambing	Director, President, and CEO
2nd	Daniel C. Zulueta	General Manager
3rd	Luigi E. Gamboa	Business Unit Head
4th	Maria Carmela D. Ochoa	Chief Financial Officer
5th	Presentation A. Santos	Supply Chain Manager

The following table identifies and summarizes the aggregate compensation (actual and expected) of the Company's President and the four most highly compensated executive officers of the Company in 2023, 2022, 2021, and 2020:

Year	Salaries and Wages (in Php)	Bonus (In Php)	Total (In Php)
2023	16,584,983	1,771,644	18,356,627
2022	19,126,683	1,311,188	20,437,871
2021	11,449,462	2,207,273	13,656,735
2020	8,634,117	733,682	9,367,799

STANDARD ARRAGEMENTS

There are no standard arrangements pursuant to which the Board of Directors are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

EMPLOYMENT CONTRACT BETWEEN THE COMPANY AND SENIOR MANAGEMENT OFFICERS

There are no special employment contracts between the company and Senior Management.

WARRANTS AND OPTIONS HELD BY THE SENIOR MANAGEMENT OFFICERS AND DIRECTORS

There are no outstanding warrants or options held by Senior Management, and all officers and directors as a group.

SIGNATURES

Pursuant to the requirements of Section 17 of the Securities Regulations Code, and Section 14 of the Corporation Code, the ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2023 (SEC FORM 17-A) is signed on behalf of the issuer by the undersigned, thereunto duly authorized in the City of QUEZON CITY, Philippines on APR 26 2024 2024.

VIRGILIO B. VILLAR
Chairman

MARIA PATRICIA DOLOR V. YAMBING
President and CEO

MARIA CARMELA D. OCHOA
Treasurer, CFO and Investor Relations Officer

DANIEL C. ZULUETA
Corporate Secretary

SUBSCRIBED AND SWORN TO before me this APR 26 2024, the following persons exhibiting me their

Name	ID	Date of Issue	Place of Issue
Virgilio B. Villar			
Maria Patricia Dolor V. Yambing			
Maria Carmela D. Ochoa			
Daniel C. Zulueta			

ATTY. ROGELIO J. BOLIVAR
NOTARY PUBLIC IN QUEZON CITY
Commission No. Adm. Matter No. NP 549 (2023-2024)
IBP O.R. No. 180815 & IBP O.R. No. 180816 2024
PTR O.R. No. 4127771 D 01/03/2024 / Roll No. 33832 / TIN # 120-871-009-000
MCLE No. 7&8 FROM APRIL 15, 2023 UNTIL APRIL 14, 2025
Address: 31-F Harvard St. Cubao, Q.C.

Doc. No. : 52
Page No. : 12
Book No. : XXII
Series of : 2024

Contextual Information

Company Details	
Name of the Organization	Medilines Distributors, Inc. (hereinafter referred to as "Medilines" or the "Company")
Location of Headquarters	3rd Floor, Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Piñas City
Location of Operations	The Company is currently located in the following location/s: • Metro Manila
Report Boundary: Legal entities (e.g., subsidiaries) included in this report*	Subsidiaries: • None
Business Model, including Primary Activities, Brands, Products, and Services	Medilines Distributors, Inc., incorporated on July 12, 2002, is an essential distributor of critical medical equipment to public and private healthcare facilities across the Philippines – products such as linear accelerators for cancer treatment, dialysis machines for treatment of kidney diseases, and imaging machines such as CT scans, x-rays, and MRI's, from world leading principals such as B. Braun (Germany), Siemens Healthineers (Germany), and Varian (USA). The Company's portfolio primarily caters to the leading categories of specialized medicine in the Philippines. These categories, in turn, address some of the top causes of mortality among Filipinos – cardiovascular diseases, cancer, chronic obstructive pulmonary disease, diabetes, pneumonia, and tuberculosis. The Company is focused on three core categories: diagnostics imaging, dialysis, and cancer therapy. These three categories were carefully selected over year of experience to ensure that the company sustains growth over the long term. With the offering of world class products in these categories, the Company have gained the trust of customers in both the private and public health sectors.
Reporting Period	January 1, 2023 – December 31, 2023
Highest Ranking Person responsible for this report	**Ma. Patricia Dolor V. Yambing – President and CEO**

Materiality Process

Explain how you applied the materiality principle (or the materiality process) in identifying your material topics.
Medilines is committed to identifying its stakeholders in order to fully engage them towards the economic, social, and environmental wellbeing of the Company and its surrounding communities. The Medilines management team will be conducting a series of discussions to identify and understand the needs of the Company's stakeholders, which would include its investors, employees, business partners, government agencies, and the community the Company is operating in. These discussions will present a bigger picture of how the Company's operations would impact each stakeholder and how the Company is making improvements to meet these financial and non-financial needs.

The Company will be utilizing the UN Sustainable Development Goals (UNSDG) as framework in order to identify the impact of the Company's operations to the environment, economy, and society.

ECONOMIC

Economic Performance

Direct Economic Value Generated and Distributed

Disclosure	Amount	Units
Direct economic value generated (revenue)	P 679,881,805	Php
Direct economic value distributed:		
a. Operating costs	137,773,105	Php
b. Employee wages and benefits	44,361,678	Php
c. Payments to suppliers, other operating costs	436,961237	Php
d. Dividends given to stockholders and interest payments to loan providers	28,795,778	Php
e. Taxes given to government	25,034,466	Php
f. Investments to community (e.g., donations, CSR)	-	Php

Medilines' Impact	**Stakeholders Affected**
Medilines Distributors, Inc is an essential distributor of critical medical equipment to public and private healthcare facilities across the Philippines. It is the first pureplay public healthcare distributor company. The Company's portfolio primarily caters to the leading categories of specialized medicine in the Philippines – diagnostic imaging, dialysis, and cancer therapy. These categories, in turn, address some of the top causes of mortality among Filipinos namely: cardiovascular diseases, cancer, chronic obstructive pulmonary disease, diabetes, pneumonia, and tuberculosis. The Company's employees receive competitive benefits and incentives in addition to their salary. Such benefits includes a retirement plan which are unfunded and non-contributory that is covered by the Company. Medilines is confident in their ability to consistently deliver outstanding results provided its almost 20 years commitment and dedication in providing the world class healthcare facilities to Filipinos.	Investors, Principals/Business Partners, Customers, Employees.
What are the Risk/s Identified?	**Which stakeholders are affected?**
The company's future growth and development are dependent, in part, on its ability to expand its offerings, implementing growth strategies, demand for its products and services, and its reliance on a limited number of third-party suppliers for merchandise and medical devices, among others. These risks may pose threat or material impact to cash flow and margins.	Investors, Principals/Business Partners, Customers, Employees.

Management Approach to Risks	
Aside from the Company's experience in the medical equipment field for almost 20 years, the Company also looks at placing the right people in place for its growth plans. The Company's products would always remain relevant as it is in an industry where there will be a patient needing of proper healthcare. In order to provide quality healthcare, the Company always surveys new developments in terms of healthcare equipment and is always open to accommodate new suppliers in its portfolio.	
What are the Opportunity/ies Identified?	
Medilines plans to expand on its medical consumables business which provides faster turnover and higher margins.	
Management Approach to Opportunities	
Medilines aims to deliver world class healthcare and value to all of its stakeholders by continuing its mission of improving the lives of all Filipinos by introducing quality life-saving innovations to the Philippine market, providing its customers top medical devices, creating harmonious relationships with world renowned innovators, and being the trusted partner of healthcare institutions and professionals.	Investors, Principals/Business Partners, Customers, Employees.

Climate-related risks and opportunities

GOVERNANCE	
a. Describe the Board's oversight of climate-related risks and opportunities	The Board of Directors is responsible in identifying key risk areas and performance indicators and monitor then with due diligence to enable the corporation to anticipate and prepare for possible threats to Medilines' operational and financial viability. Furthermore, the Board oversees that a sound enterprise risk management (ERM) framework is in place to effectively identify, monitor, assess, and manage key business risks.
b. Describe management's role in assessing and managing climate-related risks and opportunities	The Management, through the leadership of the Chief Financial Officer (CFO), provides accurate reports regarding insurances in place and creates a proper assessment report to the Board Members of any climate-related risks and opportunities identified in the operations.
STRATEGY	
a. Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	Medilines covers climate-related risks under "Risks Relating to the Philippines" under its Annual Report. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Company's operations, and consequently, may adversely affect its business, financial condition and results of operations. Currently, the company may look into carrying insurance for certain catastrophic events in order to be adequately covered in case of such catastrophes.
RISK MANAGEMENT	
a. Describe the organization's processes for identifying and	The Board of Directors, together with the Company's management, holds discussions and meetings to identify potential climate-related events and the risks they pose for the Company. Through these, the management is also able to identify the appropriate risk-mitigation

assessing climate-related risks	measures to ensure that the Company continues to achieve its strategic business objectives.
b. Describe the organization's processes for managing climate-related risks	In terms of its inventories, the Company purchases several inventory insurances to help protect the company from risks relating to inventory management. The Company is looking into acquiring additional insurances to adequately cover it in case of natural calamities.
c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	Climate-related risks are accounted for and considered in all risk-events identified within the Company's Enterprise Risk Management Framework. The identification, planning, implementation, monitoring, and evaluation of all climate-related risks are specifically governed within the Company's Annual report under "Risks Related to the Philippines".
Metrics and Targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	
a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	Medilines recognizes that natural or other catastrophes, including severe weather conditions, may materially disrupt its operations and financial condition. While it has no specific metrics and targets to assess and manage climate-related risks and opportunities, Medilines continually adopts a sound risk management that will make the most of the business opportunities and reduce adverse results of risks.
b) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	

Procurement Practices

Proportion of spending on local suppliers

Disclosure	Quantity	Units
Percentage of procurement budget used to significant locations of operations that is spend on local suppliers	**97**	%

Medilines' Impact	Stakeholders Affected
Medilines' supplies are from the local offices of multinational medical device companies, who import these to the Philippines. The Company's top suppliers include its major principals B. Braun Avitum Philippines, Siemens Healthcare Philippines, and Varian Medical Systems Philippines. Siemens Healthcare (Germany) is one of the top medical imaging companies in the world, with over 120 years of experience in the medical field and 18,500 patents globally.	Investors, Principals/Business Partners, Customers, Employees.

B. Braun (Germany) is one of the world's leading providers of extracorporeal blood treatment and have been a reliable partner and provider of renal care products and services in the Philippines since 1989, when its Avitum division began its dialysis center operations. Varian (USA) has a pioneering history of advancing radiotherapy, radiosurgery, and many other vital cancer-fighting tools since 1937. The Company's principal suppliers are selected based on several key factors which include (1) the company or brand's fit to our strategy, (2) the size of the demand for their products in the Philippine market, (3) the principal's image and reputation in the healthcare industry, (4) the agreed upon authorized areas of distribution, and (5) the support they guarantee to give to Medilines including regulatory, importation, marketing, training, installation support, after sales service, and ideal payment terms.	
Management Approach to Impacts	
Medilines manages its inventory in several ways. First, procurement is usually triggered by purchase orders. The company abides by the rules of "No P.O., No Purchase" under normal circumstances. Second, an Inventory Review is conducted every month where inventory shelf life and aging are discussed to form actions plans. Action plans include inventory keeping, moveout, donation, sale, or scrapping. Third, the Company conducts a monthly internal inventory count and a semi-annual wall-to-wall inventory count with auditors and accounting officers. Fourth, the Company conducts quality checks and run tests upon receipt of the items. Fifth, the central business IT system, Microsoft Dynamics 365 Business Central, digitally records and monitors the Company's inventory management processes. Finally, the Company have several inventory insurances in place that help protect the Company from further risks. The Company has shock throughput insurance, which covers transfer and storage of goods.	
Risks to Medilines	**Stakeholders Affected**
The Company relies on third-party distributors and suppliers, and other third-party logistics providers for the delivery of the Company's products. The Company only has limited control over the timing of deliveries and the security of its products while they are being transported. A disruption within its logistics or supply chain network could have adverse effect on the Company's ability to distribute and maintain inventory.	Investors, Principals/Business Partners, Customers, Employees.
Management Approach to Risks	
The Company regularly monitors its inventory levels and consider order lead time in the replenishment of its inventories to mitigate the risk of product unavailability. The Company also seeks to address this risk with its selection policy for suppliers which includes consideration of the supplier's location, brand reputation, capacity to supply, ability to deliver on time, and compliance with its requirements.	
Opportunities	**Stakeholders Affected**
The Company is looking to expand its product network by broadening its product offering. It is also planning to maintain its relationship with its Principals who are well known for their quality and service.	Investors, Principals/Business Partners, Customers, Employees.

Management Approach to Opportunities
The Company keep its doors open to other principals, whether directly competing or complementary with its existing product lines, or from an entirely different healthcare category altogether. Further, the Company still maintains and continues to strengthen the good relationship it has with its existing suppliers.

Anti-corruption

Training on Anti-corruption Policies and Procedures

Disclosure	Quantity	Units
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100	%
Percentage of directors and management that have received anti-corruption training	100	%
Percentage of employees that have received anti-corruption training	100	%

Incidents of Corruption

Disclosure	Quantity	Units
Number of incidents in which directors were removed or disciplined for corruption	0	#
Number of incidents in which employees were dismissed or disciplined for corruption	0	#
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0	#

Medilines' Impact	Stakeholders Affected
Medilines aims to cultivate a workplace with honesty and transparency, hence the Company prohibits employees and other members of the group to engage in the acts of bribery, kickbacks, and any form of compensation to Government officials and employees, political parties, and/or business partners. The Company provides anti-corruption training upon its onboarding and the Company annually monitors conduct to prevent the occurrence of corruption. Directors and officers annually undergo corporate governance seminars which are facilitated by SEC accredited facilitators.	Employees, Business Partners, Investors

Finally, the Company constantly engages with its Business Partners regarding their business performances, during which they are assessed of their compliance with the Company's anti-corruption policies.	

Management Approach to Impacts

Transparency, accountability, and compliance is essential to corporate governance. These acts as a deterrent to mismanagement of corporate assets. Therefore, it is critical that all material information about the corporation be publicly and timely disclosed in compliance with regulatory policies. Such information include earnings results, asset acquisition or disposition, off-balance-sheet transactions, related party transactions, and both direct and indirect remuneration of Board and Management Members.

The Board is expected to disclose material information dealings. It shall cause the filing of all required information through the appropriate mechanisms for listed companies and submissions to the Commission for the interest of its stockholders and other stakeholders.

According to its Code of Business Ethics, Medilines implements the following:

Whistle-Blowing Policy

This policy has been established to ensure that all cases of suspected wrongdoing are reported and managed in a timely and appropriate manner. Any director, officer, manager, or employee may discuss or disclose in writing any concern on potential violation of the laws as well as the Company's policies and procedure. Any report covered by this policy may be made to the Human Resource Department or to the President of the Company.

Financial Transparency

All financial, accounting, regulatory, governance, and other reports, submissions, disclosures and records of the Company shall properly and accurately reflect the transactions in required detail, and in accordance with the Company's standard accounting practices and procedures, applicable government regulations, and the its system of internal controls and audit protocols. It is the responsibility of all employees in finance and accounting-related functions, and those with management and stewardship responsibilities, to promote, foster and support a culture of integrity, transparency, accountability, and honesty in reporting.
The Company is still on the process of drafting additional policies that would make sure that its employees, managers, officers, and Board Members would adhere to the highest standards of ethical business and good corporate governance.

Risk to Medilines	**Stakeholders Affected**
Medilines is in the business of distributing critical medical equipment to public and private healthcare facilities across the Philippines, the Company's procurement and distributing transactions may be subject to issues of fairness and transparency.	Employees, Suppliers

<table>
<tr><th colspan="2">Management Approach to Risks</th></tr>
<tr><td colspan="2">Medilines' Board members have the responsibility in ensuring that there is a group-wide policy and system overseeing related part transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality.

The Board members is also responsible for formulating and implementing policies and procedures that would ensure the integrity and transparency of related party transactions between and among the corporation and its partners, joint ventures, associates, affiliates, major stockholders, offices, and directors, including their spouses, children and dependent siblings and parents, and of interlocking director relationships by members of the Board.

Medilines has a policy for Conflict of Interest which states:

• Employees may not engage in activities which could conflict with the Company's business and could interfere with the fulfillment of the employee's job responsibilities, which at all times, must be performed in the Company's best interests; and
• Employees may not use their position with the company, or company's information or assets from their personal gain or for their family members, whether directly or indirectly, or for the improper benefit of others.</td></tr>
<tr><th>Opportunities</th><th>Stakeholders Affected</th></tr>
<tr><td>Medilines ensures that its policies assure the confidentiality and security of information, transparency in the Company's internal workings, and the proper management of operations and Company assets.</td><td>Employees, Suppliers, Business Partners, Investors, Customers, Management</td></tr>
<tr><th colspan="2">Management Approach to Opportunities</th></tr>
<tr><td colspan="2">Medilines strictly abides by its Code of Conduct & Ethics and as such has already taken steps to ensure that its anti-corruption policies are communicated to its stakeholders. Moreover, the Company aims to develop policies that will detect and prevent corruption within the Company.</td></tr>
<tr><td></td><td></td></tr>
</table>

ENVIRONMENTAL

Resource Management

Energy consumption within the organization:

Disclosure	Quantity	Units
Energy consumption (renewable sources)	Not available	GJ
Energy consumption (gasoline)	Not available	GJ
Energy consumption (LPG)	Not available	GJ
Energy consumption (diesel)	Not available	GJ
Energy consumption (electricity)	Not available	kWh

Reduction of energy consumption

Disclosure	Quantity	Units
Energy consumption (renewable sources)	Not available	GJ
Energy consumption (gasoline)	Not available	GJ
Energy consumption (LPG)	Not available	GJ
Energy consumption (diesel)	Not available	GJ
Energy consumption (electricity)	Not available	kWh

Medilines' Impact	Stakeholders Affected
The Company currently leases its warehouses where its inventories are stored. The facility that consumes the most electricity is the cold storage. The cold storage maintains a sub zero temperature that is required for supplies such as Dialysis consumables.	Employees, Customers, Communities
Management Approach to Impacts	
Medilines ensures efficient use of energy. The Company makes sures that its energy consumption levels are just enough to maintain proper operations of its business. Unnecessary use of energy is further reduced by setting up maintenance schedules of equipment, such as air conditioning, to ensure that these equipment are still energy efficient.	
Risk to Medilines	**Stakeholders Affected**
Power interruptions due to natural catastrophes or lacking in power supply could pose some risk on the Company's operations.	Employees, Shareholders, Customers
Management Approach to Risks	
Medilines has set of procedures to make sure that operations are continued despite power interruptions. In its leased warehouses, it makes sure that preventive maintenance of its generator sets are conducted regularly and are in good working condition. For its office operations, the Company has set of cloud servers where company files could be accessed remotely. The server has a power generator in place to make sure that it is working even without power. These safeguards will ensure that the Company will continue its operations despite power outages.	

Opportunities	Stakeholders Affected
The Company make sure that it keeps up with the lates technology in terms of office equipment to ensure that its office equipment would lessen its electricity consumption.	Employees, Service Providers, and Customers
Management Approach to Opportunities	
Optimizing the use of its office equipment helps ensure energy efficient operations.	

Water consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	Not available	Cubic meters
Water consumption	Not available	Cubic meters
Water recycled and reused	Not available	Cubic meters

Impact, Risks, Opportunities, and Management Approach	Stakeholders Affected
Medilines' office operations is the only significant contributor to the consumption of water resources in the company. The Company's offices and warehouses use water for employee drinking, restroom, area sanitation. The Company still aims to conserve as much water as it can by implementing in-house policies such as ensuring that faucets are turned off when not in use and regular plumbing maintenance. Employees are also encouraged to avoid necessary use of water resources in office premises. Medilines' will continue such measures to make sure that there is an efficient use of water resources.	Employees, Management

Ecosystems and biodiversity (whether in upland/watershed or coastal/marine)

Disclosure	Quantity	Units
Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Not applicable	
Habitats protected or restored	Not applicable	
IUCN Red List species and national conservation list species with habitats in areas affected by operations	Not applicable	

The company does not operate within or adjacent to biodiversity-rich areas.

While this topic is deemed not material to the business of the Company, Medilines still continues to manage its energy, water, and wastes to prevent any negative impacts to the environment. As of the date of this report, the Company does not operate within or adjacent to biodiversity-rich areas.

Environmental impact management

Air Emissions

GHG

Disclosure	Quantity	Units
Direct (Scope 1) GHG Emissions	Not available	Tonnes CO_2e
Energy indirect (Scope 2) GHG Emissions	Not available	Tonnes CO_2e
Emissions of ozone-depleting substances (ODS)	Not available	Tonnes

As of December 31, 2023, the Company has no available monitoring of air emissions such as nitrous oxides (NOx), sulfur oxides (SOx), and particulate matter (PM). However, the Company still continues to track its energy usage and manages them accordingly.

<table>
<tr><th>Medilines' Impact, Risk, and Opportunities</th><th>Stakeholders Affected</th></tr>
<tr><td>Medilines utilizes its 4 delivery trucks for the transportation of its supplies and equipment to its customers. These delivery trucks are also the Company's main source of air pollutants coming from its operations.

The Company optimizes the use of its delivery trucks through proper inventory planning and streamlining delivery schedules. These efforts aim to reduce the intensity of emission produced by the constant use of its delivery trucks for transportation.</td><td>Employees, Customers</td></tr>
<tr><th colspan="2">Management Approach to Impacts, Risks, and Opportunities</th></tr>
<tr><td colspan="2">Medilines ensures efficient use of energy resources through proper scheduling of its deliveries and maintenance of its vehicles. The same scheduling and maintenance is being observed with its equipment such as chillers, air-conditioning, and other fixtures that use electricity. The Company makes sures that these equipment are still efficient in using energy and are always in top shape for everyday operations.</td></tr>
<tr><th>Risks to Medilines</th><th>Stakeholders Affected</th></tr>
<tr><td>Power interruptions due to natural catastrophes such as typhoons and extreme flooding would be detrimental to Medilines operations and could have adverse effects on its financial performance.</td><td>Employees, Customers, Suppliers, Investors</td></tr>
<tr><th colspan="2">Management Approach to Risks</th></tr>
<tr><td colspan="2">The Company carries insurance coverage in-line with industry standards and requirements to ensure that the impact of such catastrophes would not have adverse effects on its operations.</td></tr>
<tr><th>Opportunities</th><th>Stakeholders Affected</th></tr>
<tr><td>Medilines keeps up with the latest best practices in the utilization and maximization of its equipment and delivery trucks.</td><td>Employees, Customers</td></tr>
<tr><th colspan="2">Management Approach to Opportunities</th></tr>
<tr><td colspan="2">Medilines takes advantage of new methods and practices in monitoring its equipment and delivery truck usage.</td></tr>
</table>

For delivery trucks, Medilines uses a system that would organize the routing of deliveries to make sure that cargo would be efficiently delivered. While office equipment are being managed and monitored by a centralized system to ensure that energy consumption remains at a manageable level.

Water Consumption within the organization

Disclosure	Quantity	Units
Water withdrawal	Not available	Cubic meters
Water consumption	Not available	Cubic meters
Water recycled and reused	Not available	Cubic meters

Impact, Risks, Opportunities, and Management Approach	Stakeholders Affected
Medilines operations is not water intensive. However, the Company still acknowledge that water is a natural resource that should be conserved and efficiently used. To ensure efficiency in the consumption of water, Medilines makes sure that its toilet and other sanitation areas are maintained as to meet regulatory standards.	Employees

Environmental Compliance

Non-compliance with Environmental Laws and Regulations

Disclosure	Quantity	Units
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	Not available	Php
No. of non-monetary sanctions for non-compliance with environmental laws and/r regulations	Not available	#
No. of cases resolved through dispute resolution mechanism	Not available	#

Medilines' Impact	Stakeholders Affected
Medilines is in full compliance with national and local environmental laws.	Employees, Customers
Management Approach to Impacts	
Medilines operations is subject to various environmental regulations. The Company makes sures that it is operating within the scope of the following: 1. Philippine Environmental Impact Statement System 2. The Clean Water Act 3. The Water Code 4. The Clean Air Act 5. Republic Act No. 6969 6. Republic Act No. 9003 7. Presidential Decree No. 856 8. Republic Act No. 4850	
Risks	**Stakeholders Affected**

Ay violations or changes to such laws and regulations could have a negative effect on the Company's operations and financial results.	Employees, Customers, Investors
Management Approach to Risks	
Medilines believes it has complied with all applicable laws, rules, and regulations. The Company continues to ensure that all required requirements, permits, and approvals are obtained in a timely manner. Permits and approvals are monitored on a regular basis to ensure they are renewed and maintained properly. Regular communication with relevant regulators also enables the Company to monitor regulatory changes and unsure it can comply with new regulatory requirements on a timely basis.	

SOCIAL

Employee Management, Employee Hiring, and Benefits Employee data

Disclosure	Quantity	Units
Total number of employees	53	#
• Number of female employees	22	#
• Number of male employees	31	#
Attrition rate	1	%
Ration of lowest paid employee against minimum wage	0	x

Employee benefits

List of Benefits	Y/N	% of female employees who availed for the year	% of male employees who availed for the year
SSS	Y	100%	100%
PhilHealth	Y	100%	100%
Pag-ibig	Y	100%	100%
Parental leaves	Y	0%	0%
Vacation leaves	Y	64%	77%
Sick leaves	Y	64%	68%
Medical benefits (aside from PhilHealth)	Y	27%	16%
Housing assistance (aside from Pag-ibig)	N	N/A	N/A
Retirement fund (aside from SSS)	Y	5%	0%
Further education support	Y	0%	19%
Company stock options	N	N/A	N/A
Telecommuting	Y	27%	13%
Flexible-working Hours	Y	86%	65%
Rice Subsidy	Y	82%	84%
Meal Allowance	Y	18%	32%

Diversity and Equal Opportunity

Disclosure	Quantity	Units
% of female workers in the workforce	42%	%
% of male workers in the workforce	58%	%
Number of employees from indigenous communities and/or vulnerable sector*	0	#

**Vulnerable sector includes, elderly, person with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the base of the pyramid (BOP; Class D and E).*

Medilines' Impact
The government restrictions brought upon the COVID-19 pandemic has made the hiring process more difficult and complicated. The Company had to maneuver to a more digitized process in order limit

face to face contact. This meant that the Company should adapt its operations to a hybrid set-up where employees would have working days done at home instead of reporting to the office. Another challenge was to find the right candidate who can remotely do their tasks without compromising efficiency, quality, and productivity. The Pandemic also made abrupt shift in work patters and altered the way certain processes and transactions are carried out. The Company needed to adapt to these changes and would have to be creative in identifying how tasks could be adapted for remote work. Communication became a critical factor in defining expected work outputs, instructions, and it has been a way to ensure that the Company's operations would not be hindered.
Management Approach to Impacts
From the Company's roots, Medilines has always fostered a workplace culture where the skills, talents, and hard work of employees are valued. In addition, the Company promotes inclusion in the workplace and practices nondiscrimination may these be in religion, political affiliation, gender, and the like. The Company also employs competitive compensation packages and retirement benefits, with the goal of increasing employee engagement and retention. The Company also offers medical benefits, bonuses, and opportunity to travel abroad or out of town.
Opportunities
The Company is slowly growing and expanding its product offerings. As a result, the Company continues to look for ways to get capable talents that would drive the Company's growth.

Employee Training and Development

Opportunities	Quantity	Units
Total training hours	**1364**	**Hours**
a) Female employees	656	**Hours**
b) Male employees	708	**Hours**
Average Training hours	**9.27**	**Hours**
a) Female employees	9.23	**Hours**
b) Male employees	9.31	**Hours**

Labor-Management Relations

Disclosure	Quantity	Units
% of employees covered with Collective Bargaining Agreements	**0**	**%**
Number of consultations conducted with employees concerning employee-related policies	**0**	**#**

Workplace Conditions, Labor Standards, and Human Rights

Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man-hours	**142,728**	**Man-hours**
No. of work-related injuries	**0**	**#**
No. of work-related fatalities	**0**	**#**
No. of work-related ill-health	**0**	**#**
No. of safety drills	**1**	**#**

Labor Laws and Human Rights

Disclosure	Quantity	Units
No. of legal actions or employee grievances involving forced or child labor	**0**	**#**

Do you have policies that explicitly disallows violations of labor laws and human rights (e.g., harassment, bullying) in the workplace?

Topic	Y/N	If Yes, Cite reference in the Company Policy
Forced labor	**N**	**N/A**
Child labor	**N**	**N/A**
Human Rights	**Y**	It is the commitment of Medilines to ensure a safe and healthy workplace for all employees, and to promote their development and welfare. It is likewise committed in nurturing their individual capabilities and in uplifting their lives. This is embedded in the Company's policy for Health, Safety and Welfare of Employees.

Supply Chain Management

Topic	Reference in the Company Policy
Forced Labor	Medilines requires suppliers to provide information on its manpower that are verified through background checks.
Child Labor	
Human Rights	
Bribery and Corruption	

Customer Management

Customer Satisfaction

Disclosure	Score	Did a third party conduct the customer satisfaction study? (Y/N)
Customer Satisfaction	N/A	No

The Company has yet to conduct customer satisfaction surveys to its customers. However, there as of the reporting date, there were no complaints or grievances coming from the customers of Medilines.

Health and Safety

Disclosure	Quantity	Units
No. of substantiated complaints on product or service health and safety	**0**	**#**
No. of complaints addressed	**N/A**	**#**

Marketing and Labelling

Disclosure	Quantity	Units
No. of substantiated complaints on marketing and labelling	**0**	**#**
No. of complaints addressed	**N/A**	**#**

Customer privacy

Disclosure	Quantity	Units
No. of substantiated complaints on customer privacy	**0**	**#**
No. of complaints addressed	**0**	**#**

Data Security

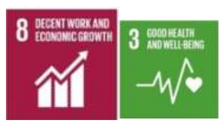
Disclosure	Quantity	Units
No. of data breaches, including leaks, thefts, and losses of data	**0**	**#**
Percentage of data breaches in which personally identified information (PII) was subject to data breach	**0**	**%**
No. of customers affected by data breaches	**0**	**#**

Medilines' Impact
Medilines makes sure that all its integrated systems are up to date. The Company utilizes Microsoft Dynamics 365 Business Central for its sales, credit and collection, and inventory processes. These systems also make sure that the Company's operations are working efficiently, especially in inventory management.
Risks and Management Approach
One of the challenges of Medilines is the delivery of its inventory. Due to the restrictions imposed during the COVID-19 pandemic surge, the Company developed its in-house delivery monitoring system to make sure that deliveries are efficiently operationalized and that there will be no late delivery to customers. The system batches all deliveries to customers taking in to account their order size, location, and delivery date. In addition, the Company also employs its warehouse manpower to check and make sure that these deliveries are done in the most efficient manner and on time.

UN SUSTAINABLE DEVELOPMENT GOALS

Product or Service Contribution to UN SDGs

Key products and services and its contribution to sustainable development.

Key Products and Services	Societal Value/Contribution to UN SDGs	Potential Negative Impact of Contribution	Management Approach to Negative Impact
Cancer Therapy		Medilines' products are focused on diagnosing and treat some of the top causes of death in the Philippines. Due to the demand of the products, these may prove to be difficult to access for other people, especially in rural areas of the country.	Medilines has always been in the forefront of providing world-class healthcare to the Filipino people. We choose to provide these top-of-the-line healthcare equipment to Public Institutions, which comprises 88% of our customer portfolio. With this, we aid in providing most Filipinos with the healthcare that they need. Given that our customers are also mostly Public Institutions, these institutions will charge very little to none in providing these healthcare services.
Diagnostic Imaging			
Dialysis			

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	2	0	0	2	5	1	0	6	4

COMPANY NAME

MEDILINES DISTRIBUTORS
INCORPORATED

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

3RD FLOOR VISTAMALL HUB
CV STARR AVE PAMPLONA DOS
LAS PINAS CITY

Form Type	Department requiring this report	Secondary License Type, if applicable
AFS 23		NA

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
admin@medilines.com.ph	85191373	9178545861

No. of Shareholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	FIRST MONDAY OF JUNE	12/31

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
MARIA CARMELA D. OCHOA	mcochoa@medilines.com.ph	85191373	9175265192

CONTACT PERSON's ADDRESS

3rd Floor Vistamall Hub, C.V. Starr Ave., Pamplona Dos, Las Pinas City

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

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

Medilines

Medilines Distributors, Incorporated
3rd Flr. Vistamall Hub, C.V. Starr Ave.,
Pamplona Dos, Las Piñas City, Philippines
Tel No. (632) 8519-1373
Fax No. (632) 8519-2012

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **MEDILINES DISTRIBUTORS INCORPORATED** (the "Company") is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Virgilio B. Villar

VIRGILIO B. VILLAR
Chairman of the Board

MARIA PATRICIA DOLOR V. YAMBING
President and Chief Executive Officer

MARIA CARMELA D. OCHOA
Chief Financial Officer

Signed this 12 day of April 2024

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P&A Grant Thornton

FOR SEC FILING

Financial Statements and Independent Auditors' Report

Medilines Distributors Incorporated

December 31, 2023, 2022 and 2021

P&A
Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

Report of Independent Auditors

The Board of Directors
Medilines Distributors Incorporated
3rd floor, Vistamall Hub, C.V. Starr Avenue
Pamplona Dos, Las Piñas City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Medilines Distributors Incorporated (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition for Sale of Medical Equipment and Installation of Medical Facilities and Medical Equipment

Description of the Matter

The Company recognizes revenue only when (or as) the performance obligation to transfer control of the promised goods or services is satisfied. The transfer of control can occur over time or at a point in time. For the year ended December 31, 2023, the Company's revenue from the sale of medical equipment amounted to P661.2 million and revenues from the installation of medical facilities and medical equipment amounted to P18.7 million. Moreover, these revenues include revenue from several government agencies amounting to P601.4 million. Since the revenues are significant and susceptible to fraud or error that could cause material misstatements to the financial statements and are significantly arising from transactions with government agencies, we consider this as a key audit matter.

In addition, recognition of revenues from the installation of medical facilities and medical equipment, which is recognized over time, requires significant judgments and estimates, which include determining when a contract will qualify for revenue recognition, and measuring the percentage of completion of projects which defines the amount of revenue to be recognized. These areas were significant to our audit as an error in application of judgments and estimates could cause a material misstatement in the financial statements.

The Company's disclosures about its revenue recognition policy and disaggregation of revenues are disclosed in Notes 2 and 14, respectively.

How the Matter was Addressed in the Audit

i) Sale of Medical Equipment

Our audit procedures to address the risk of material misstatement relating to revenue recognition on sale of medical equipment, which was considered to be a significant risk, included the following:

- updating our understanding of the Company's revenue recognition policy and procedures by reviewing revenue arrangements and revenue transaction processes;
- testing the design and operating effectiveness of relevant internal controls related to the Company's sales and receipts processes, which include inquiry and observation, and examination of supporting documents, on a sampling basis, of revenue transactions during the year;
- evaluating appropriateness of the Company's revenue recognition policy and application in accordance with PFRS 15, *Revenue from Contracts with Customers*;
- testing sales invoices, delivery receipts, and other related supporting documents, on a sample basis, of revenue transactions throughout the current period to determine whether transactions occurred and determine whether the revenue recognition is properly recognized at the time the Company satisfies its performance obligations;
- performing sales cut-off testing, including, among others, examining sales and delivery transactions near period end, and analyzing and reviewing sales returns, credit memos and other adjustments subsequent to period end to determine whether revenues are appropriately recognized in the proper period; and,

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- performing detailed analysis of revenue segments and related key ratios such as, but not limited to, current year's components of revenues (e.g., by customer and by location) as a percentage of total revenues and analysis of current and prior year's monthly revenue trends to assist in assessing the conclusions reached and evaluation of the reasonableness of revenues.

ii) Installation of Medical Facilities and Medical Equipment

Our audit procedures to address the risk of material misstatement relating to revenue recognition on installation of medical facilities and medical equipment, which was considered to be a significant risk, included the following:

- updating our understanding of the revenue recognition policy and procedures regarding revenues from installation of medical facilities and medical equipment, together with the significant business processes of the Company related to these policies;

- determining whether the parties to the contract have approved the contract in writing and that the significant terms and conditions of the transaction were appropriately identified in the contract to evaluate the appropriateness of the Company's revenue recognition policy and application in accordance with PFRS 15;

- reviewing the reasonableness of the stage of completion of all projects by analyzing the cost incurred to date as a proportion of the total estimated and budgeted costs to confirm that sales recognized properly reflects the percentage of completion;

- recomputing the revenues recognized for the year based on the percentage of completion calculated using costs incurred as of date over total estimated contract cost and tracing the revenues and costs recognized to the accounting records to ascertain that the amounts recorded agree with the supporting schedules;

- performing physical inspection of selected projects under development to assess if the completion based on costs is consistent with the physical completion of the project; and,

- ascertaining the qualification of projects engineers who prepared the budgets and reviewed the actual performance of completed projects with reference of their budgeted costs.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, and Annual Report for the year ended December 31, 2023, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2023 required by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is James Joseph Benjamin J. Araullo.

PUNONGBAYAN & ARAULLO

By: James Joseph Benjamin J. Araullo
Partner

CPA Reg. No. 0111202
TIN 212-755-957
PTR No. 10076133, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 111202-SEC (until financial period 2026)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-039-2021 (until Nov. 9, 2024)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

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April 12, 2024

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
ASSETS			
CURRENT ASSETS			
Cash	5	P 95,947,939	P 102,717,511
Trade and other receivables - net	6	1,905,781,372	1,766,169,848
Contract assets	14	1,411,783,578	1,768,036,154
Inventories - net	7	74,415,502	76,924,962
Prepayments and other current assets	8	133,457,250	109,120,442
Total Current Assets		3,621,385,641	3,822,968,917
NON-CURRENT ASSETS			
Property, plant and equipment - net	9	193,682,630	183,253,784
Deferred tax assets - net	18	16,212,497	17,464,463
Guarantee deposits	23	2,366,122	2,366,122
Total Non-current Assets		212,261,249	203,084,369
TOTAL ASSETS		P 3,833,646,890	P 4,026,053,286
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	11	P 1,266,324,470	P 1,702,808,390
Notes payable	12	400,000,000	181,634,310
Income tax payable		15,086,807	31,260,120
Total Current Liabilities		1,681,411,277	1,915,702,820
NON-CURRENT LIABILITY			
Retirement benefit obligation	17	1,764,322	3,918,206
Total Liabilities		1,683,175,599	1,919,621,026
EQUITY			
Capital stock	20	687,500,200	687,500,200
Treasury shares	20	(2,331,660)	(813,240)
Additional paid-in capital	20	1,084,071,109	1,084,071,109
Revaluation reserves	17, 18	(403,049)	(2,294,559)
Retained earnings	20	381,634,691	337,968,750
Net Equity		2,150,471,291	2,106,432,260
TOTAL LIABILITIES AND EQUITY		P 3,833,646,890	P 4,026,053,286

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See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022, AND 2021
(Amounts in Philippine Pesos)

	Notes	2023	2022	2021
REVENUES	14, 19	**P 679,881,805**	P 1,964,800,406	P 1,585,028,417
DIRECT COSTS	15	**436,961,237**	1,581,474,295	1,252,867,427
GROSS PROFIT		**242,920,568**	383,326,111	332,160,990
OPERATING EXPENSES - Net	15			
General and administrative expenses		**138,063,928**	123,602,114	107,773,710
Expected credit losses (recoveries) - net	6	**(290,823)**	1,199,886	18,350,560
		137,773,105	124,802,000	126,124,270
OPERATING PROFIT		**105,147,463**	258,524,111	206,036,720
OTHER INCOME (CHARGES) - Net	16	**(7,651,278)**	(1,623,721)	3,838,944
PROFIT BEFORE TAX		**97,496,185**	256,900,390	209,875,664
TAX EXPENSE	18	**25,034,466**	64,928,534	40,244,164
NET PROFIT		**72,461,719**	191,971,856	169,631,500
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified to profit or loss				
Remeasurement gains (losses) on post-employment defined benefit obligation	17	**2,522,013**	(79,066)	(2,112,049)
Tax income (expense)	18	**(630,503)**	19,767	484,598
		1,891,510	(59,299)	(1,627,451)
TOTAL COMPREHENSIVE INCOME		**P 74,353,229**	P 191,912,557	P 168,004,049
EARNINGS PER SHARE				
Basic and diluted	21	**P 0.03**	P 0.07	P 0.09

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	Capital Stock (see Note 20)	Additional Paid in Capital	Treasury Shares (see Note 20)	Revaluation Reserves (see Note 17)	Retained Earnings (see Note 20)	Total
Balance at January 1, 2023	P 687,500,200	P 1,084,071,109	(P 813,240)	(P 2,294,559)	P 337,968,750	P 2,106,432,260
Reacquisition of shares	-	-	(1,518,420)	-	-	(1,518,420)
Cash dividends	-	-	-	-	(28,795,778)	(28,795,778)
Total comprehensive income for the year	-	-	-	1,891,510	72,461,719	74,353,229
Balance at December 31, 2023	**P 687,500,200**	**P 1,084,071,109**	**(P 2,331,660)**	**(P 403,049)**	**(P 381,634,691)**	**P 2,150,471,291**
Balance at January 1, 2022	P 687,500,200	P 1,084,071,109	P -	(P 2,235,260)	P 171,441,619	P 1,940,777,668
Reacquisition of shares	-	-	(813,240)	-	-	(813,240)
Cash dividends	-	-	-	-	(25,444,725)	(25,444,725)
Total comprehensive income (loss) for the year	-	-	-	(59,299)	191,971,856	191,912,557
Balance at December 31, 2022	P 687,500,200	P 1,084,071,109	(P 813,240)	(P 2,294,559)	P 337,968,750	P 2,106,432,260
Balance at January 1, 2021	P 400,000,000	P -	P -	(P 607,809)	P 256,810,119	P 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 (loss) for the year	-	-	-	(1,627,451)	169,631,500	168,004,049
Balance at December 31, 2021	P 687,500,200	P 1,084,071,109	P -	(P 2,235,260)	P 171,441,619	P 1,940,777,668

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021
(Amounts in Philippine Pesos)

	Notes	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 97,496,185	P 256,900,390	P 209,875,664
Adjustments for:				
Interest expense	10, 12	13,523,959	9,209,726	47,402,126
Depreciation and amortization	9, 10	12,852,020	9,553,745	10,142,188
Unrealized foreign exchange losses (gains) - net		(2,563,160)	22,828,782	(37,142)
Provision (reversal) for expected credit losses	6	(290,823)	1,199,886	18,350,560
Interest income	5	(103,536)	(245,858)	(159,603)
Gain on sale of property and quipment	9	-	(240,290)	(28,894,879)
Loss on lease modification	10	-	-	1,166,872
Operating profit before working capital changes		120,914,645	299,206,381	257,845,786
Decrease (increase) in trade and other receivables		(139,320,701)	(290,063,010)	124,736,005
Decrease (increase) in contract assets		356,252,576	(572,772,839)	(233,675,744)
Decrease in inventories		2,509,460	43,496,907	111,790,071
Increase in prepayments and other current assets		(24,336,808)	(18,203,369)	(63,167,761)
Increase (decrease) in trade and other payables		(433,920,760)	311,613,588	200,084,466
Increase (decrease) in contract liabilities		-	(21,073,994)	17,468,265
Increase (decrease) in post-employment defined benefit obligation		368,129	(3,187,959)	571,932
Cash generated from (used in) operations		(117,533,459)	(250,984,295)	415,653,020
Income taxes paid		(40,565,609)	(38,891,637)	(79,815,614)
Interest paid		(13,523,959)	(9,195,718)	(47,224,754)
Interest received		82,829	196,686	134,022
Net Cash From (Used In) Operating Activities		(171,540,198)	(298,874,964)	288,746,674
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of property and equipment	9	(23,280,866)	(36,468,240)	(18,896,812)
Proceeds from sale of property and equipment	9	-	514,994	50,714,288
Payment of refundable deposits		-	-	(349,300)
Net Cash From (Used In) Investing Activities		(23,280,866)	(35,953,246)	31,468,176
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from notes payable	12, 13	297,792,558	477,792,558	1,088,492,536
Repayments of notes payable	12, 13	(79,426,868)	(943,863,531)	(1,651,477,782)
Cash dividends paid	13, 20	(28,795,778)	(25,444,725)	(255,000,000)
Purchase of treasury shares	20	(1,518,420)	(813,240)	-
Payments of lease liability	10, 13	-	(1,356,000)	(5,476,731)
Net proceeds from issuance of share capital	20	-	-	1,371,571,309
Net Cash From (Used In) Financing Activities		188,051,492	(493,684,938)	548,109,332
Effect of Exchange Rate Changes on Cash		-	419,435	37,142
NET INCREASE (DECREASE) IN CASH		(6,769,572)	(828,093,713)	868,361,324
CASH AT BEGINNING OF YEAR		102,717,511	930,811,224	62,449,900
CASH AT END OF YEAR		P 95,947,939	P 102,717,511	P 930,811,224

Supplemental Information on Non-cash Financing and Investing Activities:

1) In 2021, the number of issued and outstanding shares of the Company increased by 1,599,600,000 shares as a result of a stock split (see Note 20). No similar transaction occurred in 2023 and 2022.

2) In 2021, the Company reclassified certain property and equipment to inventory amounting to P1,484,911 (see Note 9). No similar transaction occurred in 2023 and 2022.

3) In 2021, the Company and its lessor agreed to modify the terms of the lease agreement. The modification includes the retroactive revision of the lease terms from April 16, 2022 to April 15, 2022. The modification also includes increase in monthly rental payments of 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). There was no similar transaction in 2023 and 2022.

See Notes to Financial Statements.

MEDILINES DISTRIBUTORS INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023, 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 20.1).

The registered office of the Company, which is also its principal place of business, is located at 3rd floor, Vistamall Hub, C.V. Starr Avenue, Pamplona Dos, Las Piñas City. The Company also has its warehouse facility, which is located at 54 E Rodriguez Jr. Ave., Backing F. Pike St., Bagong Ilog, Pasig City.

1.2 Approval of Financial Statements

The financial statements of the Company as of and for the year ended December 31, 2023 (including the comparative financial statements as of December 31, 2022 and for the years ended December 31, 2022 and 2021) were authorized for issue by the Company's Board of Directors (BOD) on April 12, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information 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 and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board 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 2023 that are Relevant to the Company

The Company adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments)	:	Presentation of Financial Statements – Disclosure of Accounting Policies
PAS 8 (Amendments)	:	Definition of Accounting Estimates
PAS 12 (Amendments)	:	Deferred Tax Related to Assets and Liabilities from a Single Transaction

Discussed below and in the succeeding page is the relevant information about these pronouncements.

(i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Company's financial statements under Note 2.

(ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Company's financial statements.

(iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Company's financial statements.

(b) Effective in 2023 that is not Relevant to the Company

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Company's financial statements.

(c) Effective Subsequent to 2023 but not Adopted Early

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. 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) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)

(ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

(iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

(v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

2.3 Financial Instruments

(a) Financial Assets

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Company commits to purchase or sell the asset).

Classification, Measurement and Reclassification of Financial Assets

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

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.

(b) Financial Liabilities

Financial liabilities include notes payable, lease liability and trade and other payables (excluding tax-related payables).

2.4 Inventories

The cost of inventory is determined using the first-in, first-out method.

2.5 Property, Plant and Equipment

Following initial recognition at cost, items of property and equipment (except land) are stated at cost less accumulated depreciation and any impairment in value. Land is measured at cost less any accumulated impairment losses.

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 and dialysis machines	1-5 years
Furniture and fixtures	1-3 years
Computer equipment	1-3 years
Building – warehouse	25 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.

2.6 Revenue and Expense Recognition

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

The Company also assesses its revenue agreements against the specific criteria enumerated below in order to determine if it is acting as principal or agent. Both the legal form and the substance of the agreement are considered to determine each party's respective roles in the agreement. Revenue is recorded at gross when acting as a principal while only net revenues are considered if only an agency service exists. 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) *Installation of medical facilities and medical equipment* – Revenue from installation of medical facilities and 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.

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.

2.7 Leases

(a) Company as a Lessee

Subsequent to initial recognition, 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 2.8).

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.

(b) Company as a Lessor

The Company applies judgment in determining whether a lease contract is a finance or operating lease.

2.8 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.

2.9 Employee Benefits

The Company provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits.

The Company's defined benefit post-employment plan covers all regular full-time employees. The pension plan is non-contributory, administered by a trustee and shall be tax-qualified after the approval from the Bureau of Internal Revenue (BIR).

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

A defined contribution plan is a post-employment plan under which the Company pays fixed contributions into an independent entity such as Social Security System.

2.10 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 the performance of the operating segments.

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

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.

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 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) Installation of Medical Facilities and Medical Equipment

The Company determines that its revenue from installation of medical facilities and 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 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 installation service as it performs.

In determining the best method of measuring the progress of the Company's rendering of 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 rights 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 a 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.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. 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 the 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 installation of medical facilities and medical equipment based on the POC under the input method of the project whereby the performance obligations are satisfied over time (see Note 2.6). 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 of 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 technological 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 December 31, 2023 and 2022, 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 the 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 December 31, 2023 and 2022 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.

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 2023, 2022 and 2021.

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

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

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

4. OPERATING SEGMENT

The Company has only one reportable segment, i.e., sale and installation of medical equipment, which caters to private and government customers. Revenues from certain government agencies, which are considered as major customers, exceed 10% of the Company's total revenues in 2023, 2022 and 2021 (see Note 14). The details of the revenues from these customers are as follows:

	2023	2022	2021
Department of Health	**P 236,319,545**	P -	P 556,945,259
Department of Budget and Management	**-**	1,091,648,306	277,239,852
	P 236,319,545	P 1,091,648,306	P 834,185,111

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 December 31:

	2023	2022
Cash in banks	**P 95,865,379**	P 102,633,546
Cash on hand	**82,560**	83,965
	P 95,947,939	P 102,717,511

Cash in banks generally earn interest based on daily bank deposit rates. Interest income earned amounted to P103,536, P245,858 and P159,603 in 2023, 2022 and 2021, respectively, and is presented as Interest income under Other Income (Charges) – net in the statements of comprehensive income (see Note 16).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2023	2022
Trade receivables –			
Third parties		**P1,446,189,427**	P1,320,792,512
Advances to related parties	19.1	**-**	210,509,381
Allowance for expected credit losses	23.2(b)	**(33,926,215)**	(34,217,038)
		1,412,263,212	1,497,084,855
Non-trade receivables:			
Advances to suppliers		**492,333,169**	264,221,515
Advances to employees		**-**	2,637,950
Other receivables		**1,184,991**	2,225,528
		493,518,160	269,084,993
		P1,905,781,372	P1,766,169,848

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 at the beginning and end of 2023 and 2022 is shown below.

	Notes	2023	2022
Balance at beginning of year		**P 34,217,038**	P 33,017,152
Provision (recovery) for ECL	15	**(290,823)**	1,199,886
Balance at end of year	23.2(b)	**P 33,926,215**	P 34,217,038

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

7. INVENTORIES

The breakdown of inventories are as follows:

	2023	2022
Inventories	**P 82,927,035**	P 85,436,495
Allowance for inventory obsolescence	**(8,511,533)**	(8,511,533)
	P 74,415,502	P 76,924,962

In prior years, 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 2023, 2022, and 2021.

An analysis of the costs of inventories included in the direct costs in each year is presented in Note 15.

8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account as of December 31 is shown below.

	2023	2022
Input VAT	**P 125,669,309**	P 103,267,862
Bid and construction bonds	**3,424,484**	3,424,484
Prepaid insurance	**2,405,929**	181,379
Rental and other deposits	**636,373**	626,723
Others	**1,321,155**	1,619,994
	P 133,457,250	P 109,120,442

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.

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, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation of property, plant and equipment at the beginning and end of 2023 and 2022 are shown below.

	Land	Leasehold improvements	Office condominium unit	Computer equipment	Furniture and fixtures	Transportation equipment	Warehouse equipment	Demo Units & Dialysis machines	Construction in Progress	Building - Warehouse	Total
December 31, 2023											
Cost	P 121,350,000	P 7,233,938	P 13,907,143	P 18,075,205	P 2,811,318	P 10,609,793	P 5,287,476	P 42,532,618	P -	P 43,211,897	P 265,019,388
Accumulated depreciation	-	(7,209,938)	(5,543,983)	(13,323,509)	(2,796,026)	(7,798,598)	(5,234,944)	(26,960,468)	-	(2,469,292)	(71,336,758)
Net carrying amount	P 121,350,000	P 24,000	P 8,363,160	P 4,751,696	P 15,292	P 2,811,195	P 52,532	P 15,572,150	P -	P 40,742,605	P 193,682,630
December 31, 2022											
Cost	P 121,350,000	P 7,209,938	P 13,907,143	P 15,875,795	P 2,780,968	P 10,609,795	P 5,195,326	P 23,911,830	P -	P 40,897,730	P 241,738,525
Accumulated depreciation	-	(7,118,474)	(4,987,698)	(9,979,775)	(2,554,583)	(7,064,338)	(3,498,696)	(22,463,221)	-	(817,956)	(58,484,741)
Net carrying amount	P 121,350,000	P 91,464	P 8,919,445	P 5,896,020	P 226,385	P 3,545,457	P 1,696,630	P 1,448,609	P -	P 40,079,774	P 183,253,784
January 1, 2022											
Cost	P 121,350,000	P 7,110,159	P 13,907,143	P 12,458,701	P 2,345,357	P 8,355,463	P 1,523,773	P 23,837,401	P 15,840,903	P -	P 206,728,900
Accumulated depreciation	-	(7,110,159)	(4,431,412)	(6,264,033)	(2,345,357)	(7,962,678)	(1,523,773)	(21,648,925)	-	-	(51,286,337)
Net carrying amount	P 121,350,000	P -	P 9,475,731	P 6,194,668	P -	P 392,785	P -	P 2,188,476	P 15,840,903	P -	P 155,442,563

A reconciliation of the carrying amounts of property and equipment at the beginning and end of 2023 and 2022 is shown below and in the succeeding page.

	Land	Leasehold improvements	Office condominium unit	Computer equipment	Furniture and fixtures	Transportation equipment	Warehouse equipment	Demo Units & Dialysis machines	Construction in Progress	Building - Warehouse	Total
Balance at January 1, 2023, net of accumulated depreciation	P 121,350,000	P 91,464	P 8,919,445	P 5,896,020	P 226,385	P 3,545,457	P 1,696,630	P 1,448,609	P -	P 40,079,774	P 183,253,784
Additions	-	24,000	-	2,199,410	30,350	-	92,150	18,620,788	-	2,314,168	23,280,866
Depreciation charges for the year	-	(91,464)	(556,285)	(3,343,734)	(241,443)	(734,262)	(1,736,248)	(4,497,247)	-	(1,651,337)	(12,852,020)
Balance at December 31, 2023, net of accumulated depreciation	P 121,350,000	P 24,000	P 8,363,160	P 4,751,696	P 15,292	P 2,811,195	P 52,532	P 15,572,150	P -	P 40,742,605	P 193,682,630
Balance at January 1, 2022, net of accumulated depreciation	P 121,350,000	P -	P 9,475,731	P 6,194,668	P -	P 392,785	P -	P 2,188,476	P 15,840,903	P -	P 155,442,563
Additions	-	99,779	-	3,458,745	435,611	3,671,295	(3,671,554)	74,429	-	25,056,827	36,468,240
Disposals - net	-	-	-	-	-	(274,704)	-	-	-	-	(274,704)
Reclassification	-	-	-	-	-	-	-	-	(15,840,903)	15,840,903	-
Depreciation charges for the year	-	(8,315)	(556,286)	(3,757,393)	(209,266)	(243,919)	(1,974,924)	(814,296)	-	(817,956)	(8,382,315)
Balance at December 31, 2022, net of accumulated depreciation	P 121,350,000	P 91,464	P 8,919,445	P 5,896,020	P 226,385	P 3,545,457	P 1,696,630	P 1,448,609	P -	P 40,079,774	P 183,253,784

	Land	Leasehold improvements	Office condominium unit	Computer equipment	Furniture and fixtures	Transportation equipment	Warehouse equipment	Demo Units	Construction in Progress	Building - Warehouse	Total
Balance at January 1, 2021, net of accumulated depreciation	P 121,350,000	P -	P 32,373,014	P 4,649,380	P -	P 928,261	P -	P 6,675,273	P -	P -	P 165,975,928
Additions	-	-	-	3,055,909	-	-	-	-	15,840,903	-	18,896,812
Reclassification to inventory - net	-	-	-	-	-	-	-	(1,484,911)	-	-	(1,484,911)
Disposals - net	-	-	(21,819,409)	-	-	-	-	(1,484,911)	-	-	(21,819,409)
Depreciation charges for the year	-	-	(1,077,874)	(1,510,621)	-	(535,476)	-	(3,001,886)	-	-	(6,125,857)
Balance at December 31, 2021, net of accumulated depreciation	P 121,350,000	P -	P 9,475,731	P 6,194,668	P -	P 392,785	P -	P 2,188,476	P 15,840,903	P -	P 155,442,563

Depreciation expense amounting to P12,852,020, P8,382,315 and P6,125,857 for 2023, 2022 and 2021, respectively, is presented as part of Operating Expenses in the statements of comprehensive income (see Note 15).

In 2022, the Company reclassified certain property and equipment from Construction in Progress to Building – Warehouse amounting to P15,840,903. Meanwhile, in 2021, the Company also made a reclassification of several demo units to commercial stocks, which then went to the normal processing of invoicing goods. The total net carrying value of property and equipment reclassified to inventories amounted to P1,484,911, with no gain or loss recognized. There was no similar transaction in 2023.

In 2022, the Company sold certain fully depreciated computer equipment and transportation equipment with net carrying value of P274,704 for P514,994. The related gain amounting to P240,290 is presented as part of Other income under Other Income (Charges)- Net in the 2022 statement of comprehensive income (see Note 16.1). Meanwhile, in 2021, the Company sold certain condominium unit to a related party under common ownership (see Note 19.5). The total carrying value of the property and equipment sold amounted to P21,819,409 while the gain on sale amounted to P28,894,879, which is presented as part of Other income under Other Income (charges)- Net in the 2021 statement of comprehensive income (see Notes 16.1 and 19.5). There was no similar transaction in 2023.

As of December 31, 2023 and 2022, the Company's fully depreciated assets amounting to P51,731,817 and P46,141,843, respectively, are still being used in operations.

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 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 an 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).

On June 15, 2022, the Company terminated its lease contract with its lessor.

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.

	Note	2023	2022
Cost		P -	P 8,032,662
Accumulated amortization:			
Balance at beginning of year		-	6,861,232
Depreciation and amortization	15	-	1,171,430
Balance at end of year		-	8,032,662
Carrying amount		P -	P -

10.2 Lease Liability

There was no outstanding lease liability as of December 31, 2022 as the Company terminated the lease contract in June 2022. There was no similar transaction in 2023.

The movements of the Company's lease liability in 2022 are shown in Note 13.

10.3 Lease Payments not Recognized as Liabilities

The Company has elected not to recognize lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis. The total expenses recognized as of 2023, 2022 and 2021 amounted to P2,053,845, P1,479,366 and P2,054,321, respectively, and is presented as Rent expense under Operating Expenses in the statements of comprehensive income (see Note 15).

10.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P1,356,000 and P5,476,731 in 2022 and 2021, respectively. Interest expense in relation to lease liability amounted to P14,008 and P177,372 in 2022 and 2021, respectively, and is presented as part of Finance Charges under Other Income (Charges) – Net in the statements of comprehensive income (see Note 16.2). There were no similar transactions in 2023.

11. TRADE AND OTHER PAYABLES

This account consists of:

	Note	2023	2022
Trade payables	19.7	**P 1,061,059,001**	P 1,263,213,093
Deferred output VAT		**152,957,802**	191,127,721
Advances from related parties	19.1	**39,859,541**	241,432,956
Accrued expenses		**10,846,713**	4,530,465
Payable to government agencies		**1,601,413**	2,504,155
		P 1,266,324,470	P 1,702,808,390

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 BIR.

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

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

12. NOTES PAYABLE

Notes Payable as of December 31, 2023 and 2022 amounted to P400,000,000 and P181,634,310, respectively.

12.1 Notes Payable

Notes payable represent unsecured term loans obtained from various local banks to finance its purchases of inventories and for additional working capital requirement of the Company. Notes payable bear an interest of 6.75% in 2023 and 4.50% to 6.75% in 2022 per annum with terms ranging up to six months in both years. The Company's loan agreements do not contain covenant obligations.

12.2 Interest Expense and Bank Charges

Interest expense on notes payable amounting to P13,523,959, P9,195,718 and P47,224,754 in 2023, 2022 and 2021, respectively, is presented as part of Finance charges under Other Income (Charges) – Net in the statements of comprehensive income (see Note 16.2).

Bank charges paid and incurred for the availment and processing of notes payable amounted to P3,481,008, P3,071,683 and P7,549,984 in 2023, 2022 and 2021, respectively, and is presented as part of Finance Charges under Other Income (Charges) – Net in the statements of comprehensive income (see Note 16.2).

13. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Notes Payable (Note 12)	Lease Liability (Note 10.2)	Dividends Payable (Note 20.2)	Total
Balance at January 1, 2023	P 181,634,310	P -	P -	P 181,634,310
Non-cash financing activity –				
Dividends declared	-	-	28,795,778	28,795,778
Cash flows from financing activities:				
Additions to notes payable	297,792,558	-	-	297,792,558
Repayments of notes payable	(79,426,868)	-	-	(79,426,868)
Dividends paid	-	-	(28,795,778)	(28,795,778)
Balance at December 31, 2023	**P 400,000,000**	**P -**	**P -**	**P 400,000,000**
Balance at January 1, 2022	P 647,705,283	P 1,341,992	P -	P 649,047,275
Non-cash financing activities:				
Interest expense amortization on lease liability	-	14,008	-	14,008
Dividends declared	-	-	25,444,725	25,444,725
Cash flows from financing activities:				
Additions to notes payable	477,792,558	-	-	477,792,558
Repayments of notes payable	(943,863,531)	-	-	(943,863,531)
Dividends paid	-	-	(25,444,725)	(25,444,725)
Repayments of lease liability	-	(1,356,000)	-	(1,356,000)
Balance at December 31, 2022	P 181,634,310	P -	P -	P 181,634,310

	Notes Payable (Note 12)	Lease Liability (Note 10.2)	Dividends Payable (Note 20.2)	Total
Balance at January 1, 2021	P 1,210,690,529	P 6,088,381	P -	P 1,216,778,910
Non-cash financing activities:				
Effect of modification of lease	-	552,970	-	552,970
Interest expense amortization on lease liability	-	177,372	-	177,372
Dividends declared	-	-	255,000,000	255,000,000
Cash flows from financing activities:				
Additions to notes payable	1,088,492,536	-	-	1,088,492,536
Repayments of notes payable	(1,651,477,782)	-	-	(1,651,477,782)
Dividends paid	-	-	(255,000,000)	(255,000,000)
Repayments of lease liability	-	(5,476,731)	-	(5,476,731)
Balance at December 31, 2021	P 647,705,283	P 1,341,992	P -	P 649,047,275

14. REVENUES

14.1 Disaggregation of 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)	Installation (over time)	Total
December 31, 2023			
Primary geographical markets			
Luzon	P 528,611,466	P 17,972,935	P 546,584,401
Visayas	25,750,072	-	25,750,072
Mindanao	106,868,434	678,898	107,547,332
	P 661,229,972	**P 18,651,833**	**P 679,881,805**
December 31, 2022			
Primary geographical markets			
Luzon	P 593,478,912	P 649,321,200	P 1,242,800,112
Visayas	100,478,669	26,169,625	126,648,294
Mindanao	182,956,932	412,395,068	595,352,000
	P 876,914,513	P1,087,885,893	P 1,964,800,406
December 31, 2021			
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	131,023,723	190,339,653	321,363,376
	P1,007,016,783	P 578,011,634	P 1,585,028,417

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

	Sale of Medical Equipment (point in time)	Installation (overtime)	Total
December 31, 2023			
Customers			
Private entities	P 78,497,638	P -	P 78,497,638
Government	582,732,334	18,651,833	601,384,167
	P 661,229,972	**P 18,651,833**	**P 679,881,805**
December 31, 2022			
Customers			
Private entities	P 140,106,119	P -	P 140,106,119
Government	736,808,394	1,087,885,893	1,824,694,287
	P 876,914,513	P1,087,885,893	P 1,964,800,406
December 31, 2021			
Customers			
Private entities	P 184,819,204	P -	P 184,819,204
Government	822,197,579	578,011,634	1,400,209,213
	P1,007,016,783	P 578,011,634	P 1,585,028,417

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 December 31, 2023 and 2022 the balance of contract assets amounted to P1,411,783,578 and P1,768,036,154, respectively.

Contract assets pertains to revenue recognized based on POC that is not yet billed nor collected as of December 31, 2023 and 2022. As of December 31, 2023 and 2022, there were no impairment of contract assets.

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

	2023	2022
Contract assets:		
Balance at beginning of year	**P 1,768,036,154**	P 1,195,263,315
Contract assets during the year	**20,890,053**	1,104,276,145
Transfers from contract assets recognized at the beginning of year to trade receivables	**(377,142,629)**	(531,503,306)
Balance at end of year	**P 1,411,783,578**	P 1,768,036,154
Contract liabilities:		
Balance at beginning of year	**P -**	P 21,073,994
Revenue recognized that was included in contract liabilities at the beginning of year	**-**	(21,073,994)
Balance at end of year	**P -**	P -

15. OPERATING EXPENSES BY NATURE

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

	Notes	2023	2022	2021
Change in inventories		**P 436,961,237**	P1,581,474,295	P 1,252,867,427
Salaries and wages	17.1, 19.8	**44,361,678**	42,945,779	29,309,576
Professional fees	19.7	**13,824,515**	18,435,633	22,908,978
Depreciation and amortization	9, 10	**12,852,020**	9,553,745	10,142,188
Taxes and licenses		**12,572,214**	14,723,270	18,294,941
Travel and transportation		**10,369,719**	4,771,296	1,192,093
Freight and handling		**5,946,414**	6,693,411	4,181,985
Representation		**5,508,631**	2,059,363	1,895,278
Training and seminars		**4,364,202**	1,203,973	87,184
Meals		**2,889,067**	1,070,535	717,784
Utilities and communication		**2,649,304**	1,670,527	1,203,459
Insurance		**2,128,105**	2,337,642	1,598,963
Rent	10.3	**2,053,845**	1,479,366	2,054,321
Security and janitorial		**2,042,799**	1,815,667	475,234
Penalties		**2,031,439**	7,067,571	4,978,716
SSS, HDMF and PHIC contribution		**2,015,194**	1,679,517	1,323,709
Repairs and maintenance		**1,264,388**	742,724	725,400
Bidding		**911,888**	927,752	946,222
Supplies		**834,980**	412,307	420,702
Accommodation		**662,702**	298,311	235,543
Association dues		**333,492**	276,400	670,400
Advertising and promotion		**277,506**	1,092,571	627,050
Brokerage fee		**-**	-	925,000
Provision (recovery) for ECL	6	**(290,823)**	1,199,886	18,350,560
Miscellaneous		**8,169,826**	2,344,754	2,858,984
		P 574,734,342	P1,706,276,295	P1, 378,991,697

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

	2023	2022	2021
Direct costs	P 436,961,237	P1,581,474,295	P1,252,867,427
Operating expenses	137,773,105	124,802,000	126,124,270
	P 574,734,342	P1,706,276,295	P1, 378,991,697

The details of direct costs are shown below.

	Notes	2023	2022	2021
Inventories at beginning of year	7	P 76,924,962	P 120,421,869	P 230,727,029
Net purchases during the year	19.6	434,451,777	1,537,977,388	1,142,562,267
		511,376,739	1,658,399,257	1,373,289,296
Inventories at end of year	7	(74,415,502)	(76,924,962)	(120,421,869)
		P 436,961,237	P1,581,474,295	P1,252,867,427

16. OTHER INCOME (CHARGES) – Net

The breakdown of this account follows:

	Notes	2023	2022	2021
Other income	16.1	P 22,625,920	P 33,855,682	P 60,648,037
Finance charges	16.2	(17,004,967)	(12,281,409)	(56,118,982)
Foreign exchanges loss - net		(13,375,767)	(23,443,852)	(849,714)
Interest income	5	103,536	245,858	159,603
		(P 7,651,278)	(P 1,623,721)	P 3,838,944

16.1 Other Income

Other income includes the following:

	Notes	2023	2022	2021
Distribution income	19.2	P 21,165,670	P 32,047,999	P 25,443,136
Rent income	19.4	1,460,250	1,567,393	1,567,393
Gain on sale of property and equipment	9, 19.5	-	240,290	28,894,879
Gain on reversal of accrual		-	-	3,235,636
Other income		-	-	1,506,993
		P 22,625,920	P 33,855,682	P 60,648,037

16.2 Finance Charges

The breakdown of this account follows:

	Notes	2023	2022	2021
Interest expense on notes payable	12.2	**P 13,523,959**	P 9,195,718	P 47,224,754
Bank charges	12.2	**3,481,008**	3,071,683	7,549,984
Loss on lease modification	10.1	**-**	-	1,166,872
Interest expense on lease liability	10.4	**-**	14,008	177,372
		P 17,004,967	P 12,281,409	P 56,118,982

17. EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

	Notes	2023	2022	2021
Short-term employee benefits		**P 43,629,755**	P 41,133,739	P 28,737,644
Post-employment defined benefit	17.2	**731,923**	1,812,040	571,932
	15, 19.8	**P 44,361,678**	P 42,945,779	P 29,309,576

17.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

In 2022, the Company established a partially funded, tax-qualified, non-contributory post-employment plan that is being administered by a trustee bank that is legally separated from the Company.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides that an employee may continue or extend his/her service up to age 64 upon mutual agreement of the employee and the management. Normal retirement benefit shall be a sum equivalent to 22.5 days pay for every year of credited service in accordance with the minimum requirements of the Republic Act 7641, *The Retirement Pay Law*. The post-employment plan covers all regular full-time employees.

(b) Explanation of Amounts Presented in the Financial Statements

All amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2023. The amounts of post-employment defined benefit obligation recognized in the statements of financial position amounted to P1,764,322 and P3,918,206 as of December 31, 2023 and 2022, respectively.

Actuarial valuations are made periodically to update the retirement benefit costs and amounts of obligation. The last actuarial valuation was made as of December 31, 2023. No actuarial valuation report was obtained from an independent actuary in 2022 as management assessed that there were no significant changes in the retirement profile of the Company's employees and critical actuarial assumptions from the actuarial valuation determined as of December 31, 2021.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	2023	2022
Present value of the obligation	P 4,301,338	P 8,839,139
Fair value of plan assets	(2,537,016)	(4,920,933)
	P 1,764,322	P 3,918,206

The movements in the present value of the post-employment defined benefit obligation recognized in the books is shown below:

	2023	2022
Balance at beginning of year	P 8,839,139	P 7,027,099
Current service cost	441,581	1,454,361
Interest expense	449,912	357,679
Transfer to the plan	18,636	-
Benefits paid	(3,954,351)	-
Actuarial gains arising from:		
Experience adjustments	(1,259,345)	-
Changes in financial assumptions	(234,234)	-
Balance at end of year	P 4,301,338	P 8,839,139

The movements in the fair value of the plan assets are shown below.

	2023	2022
Balance at beginning of year	P 4,920,933	P -
Benefits paid	(3,571,921)	-
Remeasurement gain (losses)	1,028,434	(79,067)
Interest income	159,570	-
Contributions to the plan	-	5,000,000
Balance at end of year	P 2,537,016	P 4,920,933

The fair values of the investments in unit investment trust fund are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The composition of the fair value of plan assets at the end of the reporting period is shown below.

	2023	2022
Unit Investment Trust Funds	P 2,511,646	P 4,871,724
Cash and cash equivalents	25,370	49,209
Balance at end of year	P 2,537,016	P 4,920,933

Plan assets do not comprise any of the Company's own financial instruments or any assets occupied and/or used in operations.

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

	2023	2022	2021
Reported in profit or loss:			
Interest expense	P 449,912	P 357,679	P 171,987
Current service cost	441,581	1,454,361	399,945
Interest income	(159,570)	-	-
	P 731,923	P 1,812,040	P 571,932
Reported in other comprehensive loss (income):			
Actuarial losses (gains) arising from:			
Experience adjustments	(P 1,259,345)	P -	P 2,419,751
Remeasurement of plan asset	(1,028,434)	79,066	-
Changes in financial assumptions	(234,234)	-	(303,700)
Changes in demographic assumptions	-	-	(4,002)
	(P 2,522,013)	P 79,066	P 2,112,049

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

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

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

	2023	2022	2021
Discount rates	6.10%	5.09%	5.09%
Expected rate of salary increases	3.00%	3.00%	3.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 21.8 years, 21.7 years and 22.7 years in 2023, 2022 and 2021, respectively.

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

(c) *Risks Associated with the Retirement Plan*

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

(i) Interest Risks

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

(ii) Longevity and Salary Risks

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

(d) *Other Information*

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2023 and 2022:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2023			
Discount rate	**+/- 1.00%**	**(P 203,085)**	**P 231,753**
Salary growth rate	**+/- 1.00%**	**236,762**	**(210,711)**
December 31, 2022			
Discount rate	+/- 1.00%	(P 251,665)	P 324,583
Salary growth rate	+/- 1.00%	328,451	(258,355)

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

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

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Company ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2023 consists of medium-term debt securities. The Company believes that these debt securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2023 and 2022, the plan is underfunded by P1,764,322 and P3,918,206.

The Company expects to make contributions of P4,000,000 to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31 are as follows:

		2023		2022		2021
More than one year to five years	**P**	**3,151,601**	P	6,803,232	P	6,354,803
More than five years		**1,231,373**		2,125,662		1,548,390
	P	**4,382,974**	P	8,928,894	P	7,903,193

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.1 years, 5.0 years and 3.6 years in 2023, 2022 and 2021, respectively.

18. CURRENT AND DEFERRED TAXES

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

	2023	2022	2021
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 25%	**P 24,392,296**	P 70,151,757	P 46,315,610
Final tax at 20% and 15%	**20,707**	49,172	25,582
Effect of change in income tax rate	**-**	-	(3,788,827)
	24,413,003	70,200,929	42,552,365
Deferred tax expense (income) relating to:			
Origination and reversal of temporary differences	**621,463**	(5,272,395)	(3,828,037)
Effect of change in income tax rate	**-**	-	1,519,836
	621,463	(5,272,395)	(2,308,201)
	P 25,034,466	P 64,928,534	P 40,244,164
Reported in other comprehensive income (loss)			
Deferred tax expense (income) relating to:			
Origination and reversal of temporary differences	**P 630,503**	(P 19,767)	(P 528,012)
Effect of change in income tax rate	**-**	-	43,414
	P 630,503	(P 19,767)	(P 484,598)

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

	2023	2022	2021
Tax on pretax profit at 25%	**P 24,374,046**	P 64,225,098	P 52,468,916
Adjustment for income subjected to lower tax rates	**(5,177)**	(12,293)	(14,319)
Tax effects of:			
Non-deductible expenses	**665,597**	715,729	915,781
IPO expenses charged against APIC	**-**	-	(10,857,223)
Effect of change in income tax rate	**-**	-	(2,268,991)
Tax expense	**P 25,034,466**	P 64,928,534	P 40,244,164

Components of the net deferred tax assets as presented in the statement of financial position as of December 31 follow:

	2023	2022
Impairment losses on trade and other receivables	P 8,481,554	P 8,554,260
Unrealized foreign exchange loss – net	5,161,979	5,802,769
Post-employment benefit obligation	441,081	979,551
Provision for inventory obsolescence	2,127,883	2,127,883
	P 16,212,497	P 17,464,463

Movements in net deferred tax assets for the years ended December 31 presented in profit or loss and other comprehensive income follow:

	Profit or Loss		
	2023	2022	2021
Unrealized foreign exchange loss (gain) – net	P 640,790	(P 5,812,055)	P 1,046,400
Unamortized past service cost	(886,410)	886,410	-
Impairment losses on trade and other receivables	72,706	(299,972)	(3,854,310)
Post-employment benefit obligation	794,377	(89,419)	30,758
Right-of-use assets and lease liabilities – net	-	42,641	43,374
Provision for inventory obsolescence	-	-	425,577
Deferred tax expense (income)	P 621,463	(P 5,272,395)	(P 2,308,201)

	Other Comprehensive Loss (Income)		
	2023	2022	2021
Post-employment benefit obligation	P 630,503	(P 19,767)	(P 484,598)

The Company is subject to the minimum corporate income tax (MCIT), which is computed at a rate of 1.5% in 2023 and 1% in 2022 and 2021 of gross income net of allowable deductions, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was reported in 2023, 2022 and 2021 as the RCIT was higher than MCIT in those years.

In 2023, 2022 and 2021, the Company claimed itemized deductions in computing for its income tax due.

19. RELATED PARTY TRANSACTIONS

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

	Notes	Amount of Transactions 2023	2022	2021	Outstanding Balances 2023	2022	2021
Related Parties under Common Ownership							
Advances to related parties	19.1	**(P210,509,381)**	P117,346,012	P117,346,012	**P -**	P 210,509,381	P 93,163,369
Advances from related parties	19.1	**201,573,415**	(53,926,946)	(53,926,946)	**(39,859,541)**	(241,432,956)	(187,506,010)
Distribution income	19.2	**21,165,670**	28,764,803	15,343,997	**-**	-	15,343,997
Sale of medical equipment	19.3	**2,494,138**	142,731	3,931,709	**-**	-	3,958,301
Rent income	19.4	**1,460,250**	1,460,250	1,460,250	**-**	-	1,460,250
Sale of property and equipment	19.5	**-**	-	50,714,288	**-**	-	-
Purchases	19.6	**4,700,901**	-	5,540,099	**-**	-	(5,540,099)
Management fee	19.7	**10,714,286**	12,500,000	12,500,000	**2,678,571**	-	-
Stockholders							
Cash dividends	20.2	**28,795,778**	25,444,725	255,000,000	**-**	-	-
Key Management Personnel							
Compensation	19.8	**17,091,633**	21,627,540	15,846,743	**-**	-	-
Retirement Benefit Plan	19.9	**(2,046,083)**	4,920,933	-	**2,537,016**	4,920,933	-

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

19.1 Advances to and from Related Party

The Company transferred funds to and from Asya Medika Inc. (AMI), a related party under common ownership, for working capital purposes. These advances are noninterest-bearing, unsecured and have no definite repayment terms.

The changes in advances to related parties are shown below:

	2023	2022
Balance at beginning of year	**P 210,509,381**	P 93,163,369
Additions	**28,844,267**	117,346,012
Offsetting	**(239,353,648)**	-
Balance at end of year	**P -**	P210,509,381

The changes in advances from related parties are shown below:

	2023	2022
Balance at beginning of year	**(P 241,432,956)**	(P187,506,010)
Offsetting	**239,353,648**	-
Additions	**(37,780,233)**	(53,926,946)
Balance at end of year	**(P 39,859,541)**	(P241,432,956)

In 2023, as agreed by both parties, the advances to and from AMI are offset resulting to a net liability amounting to P39,859,541 presented as Advances from related parties under Trade and Other Payables as of December 31, 2023 in the statement of financial position (see Note 11). There was no similar transaction in 2022.

19.2 Distribution Income

The Company has an agreement with AMI for warehousing and logistics services. In exchange for the warehousing and logistics services, AMI is required to pay distribution fee equivalent to 6% of net sales in 2023. Distribution fee in 2022 and 2021 is 5% and 10% of net sales, respectively.

Distribution income is presented as part of Other income under Other Income (Charges) – net in the statements of comprehensive income (see Note 16.1). There was no outstanding balance arising from this transaction as of December 31, 2023 and 2022.

19.3 Sale of Medical Equipment

The Company has sold various medical equipment to AMI amounting to P2,494,138, P142,731, and P3,931,709 in 2023, 2022 and 2021, respectively. The sales were made at a 5% mark-up on cost. These are presented as part of Revenues in the statements of comprehensive income. There were no outstanding balances arising from this transaction as of December 31, 2023 and 2022.

19.4 Rent Income

The Company has a lease agreement with AMI for the rental of office space. The total rent income recognized amounted to P1,460,250 million in 2023, 2022 and 2021. The rent income is presented as part of Other income under Other Income (Charges) – Net in the statements of comprehensive income (see Note 16.1). There was no outstanding balance as of December 31, 2023 and 2022.

19.5 Sale of Property and Equipment

In 2021, the Company sold a condominium unit to AMI with a total carrying value of P21,819,409. The gain on sale amounted to P28,894,879 and is presented as part of Other income under Other Income (Charges) – Net in the 2021 statement of comprehensive income (see Notes 9 and 16.1). There are no outstanding receivables from AMI as of December 31, 2021 relating to this transaction. There were no similar transactions in 2023 and 2022, respectively.

19.6 Purchases

The Company purchases various merchandise items from AMI with similar transaction prices and terms under exact business circumstances with third parties. These transactions are presented as part of net purchases in 2023 and 2021 (see Note 15). There was no similar transaction in 2022. The outstanding payables from these transactions as of December 31, 2023 are presented as part of Trade payables under Trade and Other Payables account in the 2023 statement of financial position (see Note 11). There was no outstanding payable as of December 31, 2022.

19.7 Management Fee

The Company entered into a management agreement with a related party under common ownership, whereby the latter shall provide the Company with technical guidance in terms of management of the Company's operation including professional advice on financial, treasury and operational matters that would benefit the Company's current operations, future growth and expansion, and plans strategic financing methods, procedures and practices that would benefit the Company's financial position and assistance on overall activities to help ensure that the Company is within the prescribed limits set by law and its corporate policies. In consideration of these services, the Company pays the latter with management fees based on the amount billed on a monthly basis.

The amount of management fees incurred in 2023, 2022 and 2021 is presented as part of Professional fees under Operating Expenses in the statements of comprehensive income (see Note 15). The outstanding payable is presented as part of Trade and Other Payables in the 2023 statement of financial position (see Note 11). There was no outstanding balance as of December 31, 2022.

19.8 Key Management Personnel Compensation

The compensation of key management personnel, which is presented as part of Salaries and wages under Operating Expenses in the statements of comprehensive income (see Notes 15 and 17), are broken down as follows:

	2023	2022	2021
Salaries and wages	**P 16,584,983**	P 19,126,683	P 11,449,462
13th month pay	**1,771,644**	1,311,188	2,207,273
Post-employment defined benefit expense (income)	**(1,264,994)**	1,189,669	2,190,008
	P 17,091,633	P 21,627,540	P 15,846,743

There is no outstanding payable relating to compensation as of December 31, 2023 and 2022.

19.9 Retirement Benefit Plan

The Company's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank. The fair value of the plan asset as of December 31, 2023 and 2022 is disclosed under Note 17.2.

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	Shares			**Amount**		
	2023	2022	2021	**2023**	2022	2021
Common shares – P0.25 par value						
Authorized share capital	**4,000,000,000**	4,000,000,000	4,000,000,000	**P 1,000,000,000**	P 1,000,000,000	P 1,000,000,000
Issued and outstanding						
Balance at beginning of year	**2,750,000,800**	2,750,000,800	400,000	**687,500,200**	687,500,000	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
	2,750,000,800	2,750,000,800	2,750,000,800	**P 687,500,200**	P 687,500,200	P 687,500,200

On July 16, 2018, the Company amended its Articles of Incorporation to increase its authorized capital stock from P50,000,000 divided into 50,000 shares with a par value of P1,000 per share to P400,000,000 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.

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.

As of December 31, 2023 and 2022, the Company's number of shares registered total 2,750,000,800 with par value of P0.25 per share and closed at a price of P0.33 and P0.69, respectively.

On June 30, 2023 and December 28, 2022, the Company reacquired 2,586,000 and 839,000 common shares from its stockholders for P1,518,420 and P813,240, respectively which are presented as Treasury Shares in the statements of financial position. The Company's retained earnings are restricted to the extent of the cost of the treasury shares as of the end of the reporting period.

20.2 Retained Earnings

On July 18, 2023, the Company declared cash dividend amounting to P28,795,778 or P0.01048 per share in favor of all its stockholders of record date as of July 18, 2023. The cash dividends were paid on August 11, 2023.

On August 17, 2022, the Company declared cash dividend amounting to P8,481,575 or P0.0031 per share in favor of all its stockholders of record date as of September 1, 2022. The cash dividends were paid on September 22, 2022.

On May 24, 2022, the Company declared cash dividends amounting to P16,963,150 or P0.0061 per share in favor of all stockholders of record as of May 24, 2022. The cash dividends were fully paid on June 28, 2022.

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 June 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:

	2023	2022	2021
Net profit for the year	P **72,461,719**	P 191,971,856	P 169,631,500
Divided by the weighted average number of outstanding common shares	**2,747,861,904**	2,749,993,904	1,895,833,400
Basic and diluted earnings per share	P **0.03**	P 0.07	P 0.09

The Company has no potential dilutive common shares as of December 31, 2023, 2022 and 2021.

22. COMMITMENTS AND CONTINGENCIES

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

22.1 Unused Credit Line

The Company has unused credit line amounting to P1,349,793,134 and P1,642,030,062, as of December 31, 2023 and 2022, respectively.

22.2 Others

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the financial statement. As of December 31, 2023, 2022 and 2021, the management believes that losses, if any, that may arise from these commitments and contingencies will not have material effects on the financial statements.

23. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

23.1 Market Risk

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

(a) Foreign Currency Risk

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

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

Foreign currency-denominated cash in banks, translated into Philippine pesos at the closing rate, amounted to P8,610,394 and P5,219,694 as of December 31, 2023 and 2022, respectively. However, the management believes the related foreign currency risk exposure is not significant.

(b) Interest Rate Risk

As of December 31, 2023, 2022 and 2021, the Company is exposed to changes in market interest rates through its cash in banks, which are subject to variable interest rates. However, management believes that the related interest rate risk exposure is not significant. All other financial assets and financial liabilities are either non-interest-bearing or subject to fixed interest rates.

23.2 Credit Risk

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

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

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

	Notes	**2023**	2022
Cash	5	**P 95,947,939**	P 102,717,511
Trade and other receivables – net	6	**1,446,189,427**	1,531,301,893
Contract assets	14.2	**1,411,783,578**	1,768,036,154
Bid and construction bonds	8	**3,424,484**	3,424,484
Guarantee deposits		**2,366,122**	2,366,122
Rental and other deposits	8	**636,373**	626,723
		P2,960,347,923	P3,408,472,887

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

(a) Cash in Banks

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

(b) Trade and Other Receivables and Contract Assets

The Company applies simplified approach in measuring ECL which uses a lifetime loss allowance for all Trade and Other Receivables, excluding advances to suppliers and advances subject for liquidation, and Contract Assets. The Company's trade and other receivables are assessed individually or on a per customer basis and the contracts assets are assessed on a per project basis.

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

The expected loss rates for trade receivables are based on the payment profiles of sales over a period of 5 years before December 31, 2023, 2022 and 2021 respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

On that basis, the loss allowance as of December 31, 2023 and 2022 was determined based on days past due for trade receivables as follows:

Days past due	Expected loss rate	Gross carrying amount	Loss allowance
December 31, 2023			
0 – 120	0.00%	P 780,891,158	P -
121 – 180	0.00%	114,628,993	-
181 – 365	0.00%	260,324,919	-
Above 365	11.63%	291,623,023	33,926,215
		P 1,447,468,093	**P 33,926,215**
December 31, 2022			
0 – 120	0.00%	P 720,558,402	P -
121 – 180	0.00%	126,403,994	-
181 – 365	0.00%	152,020,025	-
Above 365	13.15%	532,319,472	34,217,038
		P 1,531,301,893	P 34,217,038

With respect to trade receivables from NG amounting to P1,208,860,931 and P918,723,559 as of December 31, 2023 and 2022, respectively, and contracts assets amounting to P1,411,783,578 and P1,768,036,154 as of December 31, 2023 and 2022, respectively, the Company assessed the ECL based on the latest external credit rating provided by Standard and Poor's (S&P) for the Philippines which evaluates the current and historical information and assesses the potential impact foreseeable future events as basis for the credit ratings.

Management used S&P's rating of "BBB", which has an equivalent loss rate of 0.054%, 0.076% and 0.11% as of December 31, 2023, 2022 and 2021, respectively. Such rating resulted to a negligible loss allowance as of December 31, 2023, 2022 and 2021, and therefore no longer recognized.

ECL for advances to a related party are measured and recognized using the liquidity approach. Management determines possible impairment based on the counterparties' ability to repay the receivables upon demand at the reporting date taking into consideration the historical defaults from the counterparties.

Management assessed that the outstanding receivables from related parties as of December 31, 2022 are recoverable since such counterparties are assessed to have a capacity to pay the receivables upon demand and there was no historical default experience noted. Hence, no impairment is necessary as at December 31, 2022. There were no outstanding advances to related parties as of December 31, 2023.

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

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

23.3 Liquidity Risk

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

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

As of December 31, 2023 and 2022, the Company's financial liabilities (except lease liabilities – see Note 10.2) have contractual maturities, which are presented below.

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	More than 5 Years
December 31, 2023				
Notes payable	P 407,275,000	P -	P -	P -
Trade and other payables	-	1,111,765,255	-	-
	P 407,275,000	**P 1,111,765,255**	**P -**	**P -**
December 31, 2022				
Notes payable	P 188,377,008	P -	P -	P -
Trade and other payables	-	1,509,176,514	-	-
	P 188,377,008	P 1,509,176,514	P -	P -

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

24. CATEGORIES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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 is 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 2023 and 2022 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.

25. FAIR VALUE MEASUREMENT AND DISCLOSURES

25.1 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

25.2 Financial Instruments Measurement at Fair Value

The Company has no financial assets and financial liabilities measured at fair value as of December 31, 2023 and 2022 .

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2023				
Financial assets:				
Cash	P 95,947,939	P -	P -	P 95,947,939
Trade and other receivables – net	-	-	1,413,448,203	1,413,448,203
Bid and construction bonds	-	-	3,424,484	3,424,484
Guarantee deposits	-	-	2,366,122	2,366,122
Rental and other deposits	-	-	636,373	636,373
	P 95,947,939	P -	P 1,419,875,182	P 1,515,823,121
Financial liabilities:				
Trade and other payables	P -	P -	P 1,111,765,255	P 1,111,765,255
Notes payable	-	-	400,000,000	400,000,000
	P -	P -	P 1,511,765,255	P 1,511,765,255
December 31, 2022				
Financial assets:				
Cash	P 102,717,511	P -	P -	P 102,717,511
Trade and other receivables – net	-	-	1,499,310,383	1,499,310,383
Bid and construction bonds	-	-	3,424,484	3,424,484
Guarantee deposits	-	-	2,366,122	2,366,122
Rental and other deposits	-	-	626,723	626,723
	P 102,717,511	P -	P 1,505,727,712	P 1,608,445,223
Financial liabilities:				
Trade and other payables	P -	P -	P 1,509,176,514	P 1,509,176,514
Notes payable	-	-	181,634,311	181,634,311
	P -	P -	P 1,690,810,825	P 1,690,810,825

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

26. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year, which is required by the BIR under Revenue Regulation (RR) No. 15-2010 and RR No. 34-2020 to disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

27.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) Output VAT

The Company's VATable sales for the taxable year 2023 are presented below:

	Tax Base	Output VAT
Vatable sales	P 131,546,892	P 15,785,627
Sale to Government	888,855,089	106,662,611
	P1,020,401,981	**P 122,448,238**

The Company has no exempt sales and no zero-rated sale transactions during the year.

The tax base is included as part of Revenues in the 2023 statement of comprehensive income. Furthermore, the tax base is based on the Company's gross receipts for the taxable year, hence, may not be the same amount presented in the 2023 statement of comprehensive income. Deferred output VAT for the year amounted to P152,957,802.

(b) Input VAT

The movements in input VAT in 2023 is summarized below.

Balance at beginning of year	P 103,267,862
Domestic purchase of service	18,901,772
Goods other than for resale or manufacture	89,115,127
Importation of goods other than capital goods	3,205,768
VAT withheld to Government	33,627,018
Applied against output VAT	(122,448,238)
Balance at end of year	**P 125,669,309**

The outstanding net input VAT amounting to P125,669,309 as of December 31, 2023 is presented as part of Prepayments and Other Assets in the 2023 statement of financial position.

(c) *Taxes on Importation*

In 2023, the total landed cost of the Company's imported inventory for use in business amounted to P26,714,738. This includes customs duties and tariff fees totaling P1,187,071.

(d) *Excise Tax*

The Company did not have any transaction in 2023 which is subject to excise tax.

(e) *Documentary Stamp Tax*

The Company incurred documentary stamp tax in 2023 broken down as follows:

On notes payable	P 2,062,635
Others	532,989
	P 2,595,624

(f) *Taxes and Licenses*

The details of Taxes and Licenses account is broken down as follows:

Permits and licenses	P 6,450,804
Documentary stamp tax	2,595,624
Real estate tax	1,265,549
Registration fee	577,297
IPO-related fees	280,000
Insurance	11,687
Others	1,391,253
	P 12,572,214

(g) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2023 are shown below.

Expanded	P 12,257,718
Compensation and employee benefits	5,033,048
	P 17,290,766

The Company has no income payments subject to final withholding tax in 2023.

(h) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2023, the Company has no final deficiency tax assessment from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside the BIR in any of the open taxable years.

27.2 Requirements Under RR No. 34-2020

RR No. 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Company is not covered by these requirements as the Company did not fall in any of the categories identified under Section 2 of RR No. 34-2020.

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

Punongbayan & Araullo
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Philippines

T +63 2 8988 2288

The Board of Directors
Medilines Distributors Incorporated
3rd floor, Vistamall Hub, C.V. Starr Avenue
Pamplona Dos, Las Piñas City

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Medilines Distributors Incorporated (the Company) for the year ended December 31, 2023, on which we have rendered our report dated April 12, 2024. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68 and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Company's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

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

CPA Reg. No. 0111202
TIN 212-755-957
PTR No. 10076133, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 111202-SEC (until financial period 2026)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-039-2021 (until Nov. 9, 2024)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

BUREAU OF INTERNAL REVENUE
RDO-53A LAS PIÑAS CITY
RECEIVED
19 APR 2024
RR8-B
NOR HONEY B. MACADINDANG
RCO CODE: 005635
INITIAL:

April 12, 2024

MEDILINES DISTRIBUTORS INCORPORATED
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2023

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2023
(Amounts in Philippine Pesos)

Name and Designation of Debtor	Balance at Beginning of the Year	Additions	Deductions				Ending Balance		Balance at End of the Year
		Amounts Granted	Amounts Collected	Amounts Set-off	Amounts Written-off	Amounts Assigned	Current	Not Current	
Asya Medika, Inc.									
Advances to related party - net	P 210,509,381	P 28,844,267	P -	(P 239,353,648)	P -	P -	P -	P -	P -
Advances from a related party - net	(241,432,956)	(37,780,233)	-	239,353,648	-	-	(39,859,541)	-	(39,859,541)
TOTAL	(P 30,923,575)	(P 8,935,966)	P -	-	P -	P -	(P 39,859,541)	P -	(P 39,859,541)

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE D - LONG TERM DEBT
DECEMBER 31, 2023
(Amounts in Philippine Pesos)

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption"Current portion of long-term debt" in related balance sheet	Amount shown under caption"Long-Term Debt" in related balance sheet	Interest Rate	Maturity Date
Notes Payable					
Bank of the Philippine Island	P 50,000,000	P 50,000,000	P -	6.75%	January 9, 2024
Bank of the Philippine Island	50,000,000	50,000,000		6.75%	March 26, 2024
BDO Unibank	100,000,000	100,000,000	-	6.75%	January 20, 2024
BDO Unibank	200,000,000	200,000,000	-	6.75%	April 26, 2024
Long-term loans and other borrowings	**P 400,000,000**	**P 400,000,000**	**P -**		

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2023
(Amounts in Philippine Pesos)

Name of Related Party	Balance at Beginning of Year	Balance at End of Year
Asya Medika, Inc.		
Advances to related parties - net	P 210,509,381	P -
Advances from related parties - net	(241,432,956)	(39,859,541)
	(P 30,923,575)	(P 39,859,541)

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE G - CAPITAL STOCK
DECEMBER 31, 2023

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by		
				Related Parties	Directors, Officers and Employees	Others
Common shares – P0.25 par value	4,000,000,000	2,746,575,800	-	600,000,000	1,325,001,400	821,574,400

MEDILINES DISTRIBUTORS INCORPORATED
3rd floor, Vistamall Hub, C.V. Starr Avenue,
Pamplona Dos, Las Piñas City
Reconciliation of Retained Earnings Available for Dividend Declaration
For The Year Ended December 31, 2023

Unappropriated Retained Earnings Available at January 1, 2023	P	337,968,750
Prior Year's Outstanding Reconciling Items		
Deferred tax asset – gross	(	17,586,019)
Adjusted Net Income		72,461,719
Less: Other items that should be excluded from the determination of the amount of available for dividends		
Net movement in deferred tax asset and deferred tax liabilities relared to same transaction, e.g., asset retirement benefit obligation	(	1,507,873)
Dividend Declarations During the Year	(	28,795,778)
Treasury Shares	(	2,331,660)
Unappropriated Retained Earnings Available for Dividend Declaration at December 31, 2023	**P**	**360,209,139**

MEDILINES DISTRIBUTORS INCORPORATED
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	December 31, 2023		December 31, 2022	
Current Ratio				
Total Current Assets	3,621,385,641	2.15	3,822,968,917	2.00
Total Current Liabilities	1,681,411,277		1,915,702,820	
Acid Test Ratio				
Total Quick Assets (Total Current Assets less Contract assets, Inventories - net and Prepayments and other current assets	2,001,729,311	1.19	1,868,887,359	0.98
Total Current Liabilities	1,681,411,277		1,915,702,820	
Solvency Ratio				
Net Profit + Non-cash Expenses	85,022,916	0.05	202,725,487	0.11
Total Liabilities	1,683,175,599		1,919,621,026	
Debt-to-equity Ratio				
Total Liabilities	1,683,175,599	0.78	1,919,621,026	0.91
Total Equity	2,150,471,291		2,106,432,260	
Asset-to-equity Ratio				
Total Assets	3,833,646,890	1.78	4,026,053,286	1.91
Total Equity	2,150,471,291		2,106,432,260	
Interest Rate Coverage Ratio				
Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)	123,872,164	9.16	275,663,861	29.93
Interest Expense	13,523,959		9,209,726	
Return on Equity				
Net Profit	72,461,719	3.37%	191,971,856	9.11%
Total Equity	2,150,471,291		2,106,432,260	
Return on Assets				
Net Profit	72,461,719	1.89%	191,971,856	4.77%
Total Assets	3,833,646,890		4,026,053,286	
Net Profit Margin				
Net Profit	72,461,719	10.66%	191,971,856	9.77%
Total Revenues	679,881,805		1,964,800,406	
Book Value Per Share				
Total Equity	2,150,471,291	0.78	2,106,432,260	0.77
Number of Shares Outstanding	2,746,575,800		2,749,161,800	
Earnings Per Share				
Net Profit	72,461,719	0.03	191,971,856	0.07
Weighted Average Number of Shares Outstanding	2,747,861,904		2,749,993,904	
Gross Profit Ratio				
Gross Profit	242,920,568	35.73%	383,326,111	19.51%
Total Revenues	679,881,805		1,964,800,406	
EBITDA Margin				
EBITDA	123,872,164	18.22%	275,663,861	14.03%
Total Revenues	679,881,805		1,964,800,406	
Net Profit Ratio				
Net Profit	72,461,719	0.11	191,971,856	0.10
Total Revenues	679,881,805		1,964,800,406	