

COVER SHEET

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S.E.C. Registration Number

C R O W N A S I A C H E M I C A L S

C O R P O R A T I O N

(Company's Full Name)

K M 3 3 M C A R T H U R H I G H W A Y

B O T U K T U K A N G U I G U I N T O B U L A C A N

TITA P. VILLANUEVA

Contact Person

8 2 8 3 8 7 1 9

Company Telephone Number

1 2 3 1

Month Day Fiscal Year

SEC FORM 17-Q SEPTEMBER 30, 2023

FORM TYPE

0 5 1 1

Month Day Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

6 6

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended **September 30, 2023**
2. SEC Identification number **159950**
3. BIR Tax Identification No. **000-240-902-000**
4. Exact name of issuer as specified in its charter **CROWN ASIA CHEMICALS  
CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization **Metro Manila**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office **Km 33 Mc Arthur Highway Tuktukan  
Guiguinto, Bulacan**
- Postal Code **3015**
8. Issuer's telephone number, including area code **(632) 3412-0639 to 41**
9. Former name, former address and former fiscal year, if changed since last report **Not Applicable**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding
<b>Common stock</b>	<b>610,639,000</b>
	Amount of debt outstanding <b>P 397,270,881.00</b>

11. Are any or all of the securities listed on a Stock Exchange?

Yes  No

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

**The Philippine Stock Exchange Inc.**

12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 there under or Sections 11 of the RSA and RSA Rule 11(a)-1 there under, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [ / ] No [ ]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ / ] No [ ]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

The Interim Financial Statements are attached as Exhibits 1 to 5 hereof and incorporated herein by reference.

Exhibit 1 – Statements of Financial Position as of September 30, 2023 and December 31, 2022

Exhibit 2 – Statements of Comprehensive Income for the periods ended September 30, 2023 and September 30, 2022

Exhibit 3 – Statements of Changes in Equity as of September 30, 2023 and September 30, 2022

Exhibit 4 – Statements of Cash Flow as of September 30, 2023 and September 30, 2022

Exhibit 5 – Notes to Interim Financial Information

### **Item 2. Management's Discussion and Analysis of Results of Operations and Financial Position**

Please refer to Exhibit 6 hereof.

### **Item 3. Aging of Accounts Receivable**

Please refer to Exhibit 7 hereof.

### **Item 4. Key Performance Indicators**

Please refer to Exhibit 8 hereof.

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounds Corporation)*  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2023 AND DECEMBER 31, 2022**  
*(Amounts in Philippine Pesos)*

	UNAUDITED SEPTEMBER 30, 2023	AUDITED DECEMBER 31, 2022
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	403,073,935	255,027,375
Trade and other receivables	422,420,469	294,422,081
Inventories	707,572,430	705,687,384
Prepayments and other current assets - net	102,107,225	116,582,436
<b>Total Current Assets</b>	<b>1,635,174,059</b>	<b>1,371,719,276</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment - net	654,553,682	671,957,011
Right of Use Assets - net	11,460,240	14,762,376
Post-employment defined benefit asset	2,222,981	4,671,133
Other non-current assets - net	7,503,545	12,816,124
<b>Total Non-Current Assets</b>	<b>675,740,448</b>	<b>704,206,644</b>
<b>TOTAL ASSETS</b>	<b>2,310,914,507</b>	<b>2,075,925,920</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Trade and other payables	278,553,805	214,516,411
Loans and Mortgage Payable	176,756	1,984,626
Lease Liability-Current	924,966	4,332,370
Income tax payable	32,087,577	9,207,090
<b>Total Current Liabilities</b>	<b>311,743,104</b>	<b>230,040,497</b>
<b>NON-CURRENT LIABILITIES</b>		
Mortgage Payable	333,680	333,680
Lease Liability-Non Current	13,088,724	13,088,724
Deferred tax liabilities - net	72,105,373	72,105,373
<b>Total Non-current Liabilities</b>	<b>85,527,777</b>	<b>85,527,777</b>
<b>Total Liabilities</b>	<b>397,270,881</b>	<b>315,568,274</b>
<b>EQUITY</b>		
Capital stock	630,800,000	630,800,000
Additional Paid In capital	52,309,224	52,309,224
Revaluation reserves	234,782,852	234,782,852
Retained earnings	1,036,847,581	883,561,601
	1,954,739,657	1,801,453,677
Treasury Stock	(41,096,031)	(41,096,031)
<b>Total Equity</b>	<b>1,913,643,626</b>	<b>1,760,357,646</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>2,310,914,507</b>	<b>2,075,925,920</b>

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	<i>FOR THE PERIOD</i>		<i>FOR THE QUARTER</i>	
	<i>UNAUDITED</i>		<i>UNAUDITED</i>	
	<u>SEPTEMBER 30, 2023</u>	<u>SEPTEMBER 30, 2022</u>	<u>SEPTEMBER 30, 2023</u>	<u>SEPTEMBER 30, 2022</u>
REVENUE	1,175,910,656	1,407,254,704	451,965,254	469,679,024
COST OF GOODS SOLD	<u>740,877,261</u>	<u>980,797,990</u>	<u>276,670,676</u>	<u>323,969,424</u>
GROSS PROFIT	<u>435,033,395</u>	<u>426,456,714</u>	<u>175,294,578</u>	<u>145,709,600</u>
OTHER OPERATING EXPENSES	<u>164,590,594</u>	<u>168,487,391</u>	<u>51,763,815</u>	<u>53,462,225</u>
OTHER INCOME (CHARGES)				
Finance costs	(991,317)	(1,509,846)	(298,851)	(670,016)
Foreign currency gains (losses) - net	2,963,411	7,511,025	3,238,557	3,751,709
Finance income	5,399,780	62,787	3,427,463	35,331
Other income	<u>968,123</u>	<u>1,170,924</u>	<u>567,565</u>	<u>440,325</u>
	<u>8,339,997</u>	<u>7,234,890</u>	<u>6,934,734</u>	<u>3,557,349</u>
PROFIT BEFORE TAX	278,782,798	265,204,213	130,465,497	95,804,724
TAX EXPENSE				
Current income tax	(70,539,308)	(65,208,508)	(32,762,407)	(23,511,249)
Deferred income tax	-	-	-	-
NET PROFIT	<u>208,243,490</u>	<u>199,995,705</u>	<u>97,703,090</u>	<u>72,293,475</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss				
Revaluation increment on land				
Remeasurements of post-employment defined benefit plan				
Tax income (expense)				
TOTAL COMPREHENSIVE INCOME	<u>208,243,490</u>	<u>199,995,705</u>	<u>97,703,090</u>	<u>72,293,475</u>
BASIC AND DILUTED EARNINGS PER SHARE	<u>0.34</u>	<u>0.33</u>	<u>0.16</u>	<u>0.12</u>

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	UNAUDITED SEPTEMBER 30, 2023	UNAUDITED SEPTEMBER 30, 2022
<b>CAPITAL STOCK</b>		
Balance at beginning of year	630,800,000	630,800,000
Issuance of shares during the year	-	-
Balance at end of year	<u>630,800,000</u>	<u>630,800,000</u>
<b>ADDITIONAL PAID IN CAPITAL</b>		
Balance at beginning of year	52,309,224	52,309,224
Balance at end of year	<u>52,309,224</u>	<u>52,309,224</u>
<b>REVALUATION RESERVES</b>		
Balance at beginning of year		
As previously reported	234,782,852	231,142,347
Effect of revaluation of land - net of tax	-	-
As restated	<u>234,782,852</u>	<u>231,142,347</u>
Revaluation of land during the year		
Tax effect of revaluation of land		
Remeasurement of post-employment defined benefit - net of tax		
Balance at end of year	<u>234,782,852</u>	<u>231,142,347</u>
<b>RETAINED EARNINGS</b>		
Appropriated		
Balance at beginning of year		
Reversal of appropriation		
Appropriation during the year		
Balance at end of year		
Unappropriated		
Balance at beginning of year	883,561,601	715,725,191
Net profit for the year	208,243,490	199,995,705
	<u>1,091,805,091</u>	<u>915,720,896</u>
Cash dividend	<u>(54,957,510)</u>	<u>(30,531,950)</u>
Balance at end of year	<u>1,036,847,581</u>	<u>885,188,946</u>
Balance at end of year	1,954,739,657	1,799,440,517
Treasury stock ( 20,161,000 shares)	<u>(41,096,031)</u>	<u>(41,096,031)</u>
<b>TOTAL EQUITY</b>	<u><b>P 1,913,643,626</b></u>	<u><b>P 1,758,344,486</b></u>

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE NINE (9) MONTHS ENDED SEPTEMBER 30, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

	<i>UNAUDITED</i>	
	SEPTEMBER 30, 2023	SEPTEMBER 30, 2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	278,782,798	265,204,213
Adjustments for:		
Depreciation and amortization	32,891,064	32,194,663
Unrealized Foreign currency (gains) loss - net	( 883,142 )	( 4,420,344 )
Interest expense	991,317	1,509,846
Finance income	( 5,399,780 )	( 62,787 )
Other Income	( 968,123 )	( 1,170,924 )
Gain on sale of property and equipment	-	-
Operating profit before working capital changes	305,414,134	293,254,667
(Increase) decrease in trade and other receivables	( 127,998,388 )	( 97,691,728 )
(Increase) decrease in inventories	( 1,885,046 )	( 16,435,789 )
(Increase) decrease in prepayments and other current assets	14,475,211	13,042,890
(Increase) decrease in post-employment defined benefit asset	2,448,152	2,368,737.00
(Increase) decrease in other non-current assets	5,312,579	9,484,568
Increase (decrease) in trade and other payables	64,037,394	( 113,069,799 )
Increase (decrease) in post-employment defined benefit obligation	-	-
Increase (decrease) in lease liability	-	-
Cash generated from (used in) operations	261,804,036	90,953,546
Cash paid for Income taxes	( 46,594,427 )	( 46,767,597 )
<b>Net Cash From (Used In) Operating Activities</b>	<b>215,209,609</b>	<b>44,185,949</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	( 12,185,599 )	( 22,745,280 )
Disposal of property, plant and equipment	-	837,825.00
Other Income	968,123	1,170,924
Interest received	4,335,386	50,246
<b>Net Cash Used in Investing Activities</b>	<b>( 6,882,090 )</b>	<b>( 20,686,285 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends Paid	( 54,957,510 )	( 61,063,900 )
Interest paid for lease liabilities	( 890,273 )	( 989,985 )
Payments for principal portion of lease liabilities	( 1,807,870 )	( 2,673,745 )
Interest paid on loans and mortgages	( 101,044 )	( 519,861 )
Payment of short term loans and borrowings	( 3,407,404 )	( 31,677,770 )
Proceeds from short term loans	-	70,000,000
<b>Net Cash From (Used in) Financing Activities</b>	<b>( 61,164,101 )</b>	<b>( 26,925,261 )</b>
Effect of Exchange Rate Changes on Cash	883,142	4,420,344
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>148,046,560</b>	<b>994,747</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>255,027,375</b>	<b>108,633,691</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>P 403,073,935</b>	<b>P 109,628,438</b>

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2023 AND 2022 (UNAUDITED)**  
**(With Comparative Figures for December 31, 2022)**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

Crown Asia Chemicals Corporation (the Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on February 10, 1989 primarily to engage in, operate, conduct and maintain the business of manufacturing, importing, exporting, buying, selling or otherwise dealing in, at wholesale and retail such goods as plastic and/or synthetic resins and compounds and other allied or related products of similar nature.

The Company's Board of Directors (BOD) approved the change in name of the Company from Crown Asia Compounders Corporation to Crown Asia Chemicals Corporation on March 4, 2014. The SEC approved the change in name of the Company and the corresponding amendment in the Company's Articles of Incorporation on September 29, 2014. The change in name of the Company was registered with the Bureau of Internal Revenue (BIR) on October 24, 2014.

The Company's shares were listed in the Philippine Stock Exchange (PSE) on April 27, 2015.

On December 5, 2018, the Company's BOD approved the adoption of Share Buyback Program whereby the Company is authorized to reacquire its capital stock from the public for an aggregate acquisition price of P100.0 million.

The Company's registered office, which is also its principal place of business, is located at Km. 33, McArthur Highway, Bo. Tuktukan, Guiguinto, Bulacan. The Company's administrative office is located at Units 506 and 508 President's Tower, No. 81 Timog Ave., South Triangle, Quezon City. The Company also operates a manufacturing plant in Valenzuela City and sales depot in Cebu City and Davao City.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2.1 Basis of Preparation of Financial Statements**

**(a) Statement of Compliance with Philippine Financial Reporting Standards**

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

by the International Accounting Standards Board, 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 the statement of comprehensive income separate from the statement of profit or loss.

The Company presents a third statement of financial position as at 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 New and Amended PFRS**

#### **(a) Effective in 2022 that are Relevant to the Company**

The Company adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2022:

PAS 16 (Amendments)	: Property, Plant and Equipment – Proceeds Before Intended Use
PAS 37 (Amendments)	: Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to PFRS (2018-2020 Cycle)	
PFRS 9 (Amendments)	: Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities

## PFRS 16 (Amendments) : Leases – Lease Incentives

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

- (i) PAS 16 (Amendments), Property, Plant and Equipment – Proceeds Before Intended Use. The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The application of these amendments had no significant impact on the Company's financial statements as there were no sales of such items produced by property, plant and equipment made before being available for use on or after the beginning of the earliest period presented.

- (ii) PAS 37 (Amendments), Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services. Costs that relate directly to a contract include both incremental costs of fulfilling that contract (e.g., direct labor and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g., the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments resulted in a revision in the Company's policy to include both incremental costs and an allocation of other costs when determining whether a contract was onerous. The amendments apply prospectively to contracts existing at the date when the amendments are first applied. Management assessed that there is no significant impact on the Company's financial statements as a result of the change since none of the existing contracts as of January 1, 2022 would be identified as onerous after applying the amendments.

- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments which do not have significant impact and which are effective from January 1, 2022, are relevant to the Company's financial statements:

- PFRS 9 (Amendments), Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities. The amendments clarify the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

- Illustrative Examples Accompanying PFRS 16, Leases – Lease Incentives. The amendments remove potential for confusion regarding lease incentives by deleting from Illustrative Example 13 the reimbursement relating to leasehold improvements as it had not been explained clearly enough as to whether the reimbursement would meet the definition of a lease incentive in accordance with PFRS 16.

**(b) Effective in 2022 that are not Relevant to the Company**

Among the amendments to PFRS which are mandatorily effective for annual periods beginning on or after January 1, 2022, the following are not relevant to the Company's financial statements:

- (i) PFRS 3 (Amendments), *Business Combinations – Reference to the Conceptual Framework*
- (ii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are not relevant to the Company:
  - PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Subsidiary* as a First-time Adopter
  - PAS 41, *Agriculture – Taxation in Fair Value Measurements*

**(c) Effective Subsequent to 2022 but not Adopted Early**

There are amendments and annual improvements to existing standards effective for annual periods subsequent to 2022, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (ii) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (iii) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (iv) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

### **2.3 Current versus Non-current Classification**

The Company presents assets and liabilities in the statement of financial position based on current or non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as non-current.

Deferred income tax assets and liabilities are classified as non-current assets and liabilities.

### **2.4 Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's strategic steering committee, its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Company's products, which represent the main products provided by the Company.

Each of these operating segments is managed separately as each of these product lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Company uses for segment reporting under PFRS 8, Operating Segments, are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

## 2.6 Financial Instruments

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

### (a) *Financial Assets*

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

### (i) *Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss.

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets at amortized cost is the only classification applicable to the Company. The classification and measurement of the Company's relevant financial assets are described in the succeeding page.

Financial assets are measured at amortized cost if both of the following conditions are met:

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

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

The Company's financial assets at amortized cost are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances and Other receivables), Short-term placement (presented under Prepayments and Other Current Assets) and Security deposits (presented under Other Non-current Assets) in the statement of financial position. Cash and cash equivalents include cash on hand and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash.

Financial assets measured at amortized cost are included in current assets, except for those with maturities greater than 12 months after the end of reporting period, which are classified as non-current assets.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired. For credit-impaired financial assets at amortized cost, the effective interest rate is applied to the net carrying amount of the financial assets (after deduction of the loss allowance). The interest earned is recognized in the statement of profit or loss as part of Finance income under Other Income (Charges).

(ii) *Impairment of Financial Assets*

At the end of the reporting period, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. The Company considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets. Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instruments evaluated based on a range of possible outcome.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix.

The Company also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due.

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

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

The amount of ECL required to be recognized during the year, if any, is presented as Impairment loss on trade receivables under the Other Operating Expenses. Reversal of loss allowance, if applicable, is recognized in the statement of profit or loss as part of Other income under Other Income (Charges).

(iii) *Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows

from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) *Financial Liabilities*

Financial liabilities, which include Trade and Other Payables (except Advances from customers and tax-related payables), Mortgage Payables and Lease Liabilities, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense under the caption Finance costs - net in the statement of profit or loss.

Trade and other payables and mortgage payables are recognized initially at their fair values and subsequently measured at amortized cost, using effective interest method for those with maturities beyond one year, less settlement payments.

Dividend distributions to stockholders are recognized as financial liabilities upon declaration by the Company's BOD.

Interest-bearing loans normally arise from the funding of certain construction projects and working capital loans raised for support of short-term funding of operations and are recognized initially at the transaction price (i.e., the present value of cash payable to the bank, including transaction costs). Finance costs are charged to profit or loss on an accrual basis (except for capitalizable borrowing costs which are added as part of the cost of qualifying asset) using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Financial liabilities are also derecognized when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Company currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset



and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entities and all counterparties to the financial instruments.

## **2.6 Inventories**

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Finished goods include the cost of raw materials, direct labor and a proportion of manufacturing overhead based on actual units produced. The cost of raw materials includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials, supplies and packaging materials is the current replacement cost.

## **2.7 Prepayments and Other Assets**

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

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

Advances to suppliers that will be applied as payment for future purchase of inventories are classified and presented under the Trade and Other Receivables account in the statement of financial position. On the other hand, advances to suppliers that will be applied as payment for future acquisition or construction of property, plant and equipment are classified and presented under the Other Non-current Assets account. The classification and presentation is based on the eventual realization of the asset to which it was advanced for.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## **2.8 Property, Plant and Equipment**

Property, plant and equipment, except land, are initially recognized at cost and subsequently carried at cost less accumulated depreciation, amortization and any impairment in value. As no finite useful life for land can be determined, the related carrying amount is not depreciated.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized, while expenditures for repairs and maintenance are charged to expense as incurred.

Following initial recognition at cost, land is carried at revalued amount which is the fair value at the date of the revaluation as determined by independent appraisers. Revalued amount is the fair market value determined based on appraisal by external professional valuer once every two years or more frequently if market factors indicate a material change in fair value.

Any revaluation surplus is recognized in other comprehensive income and credited to the Revaluation Reserves account in the statement of changes in equity. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in profit or loss. Upon disposal of revalued assets, amounts included in Revaluation Reserves relating to the assets are transferred to Retained Earnings, net of tax.

Depreciation and amortization are computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	3-25 years
Transportation equipment	3-15 years
Land improvements	2-15 years
Machineries, factory, and other equipment	2-15 years
Furniture, fixtures and office equipment	2-15 years

Leasehold improvements, presented as part of Building and improvements, are amortized over the asset's estimated useful lives ranging from three to five years or applicable lease terms, whichever is shorter.

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

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated and amortized assets are retained in the account until they are no longer in use and no further charge for depreciation and amortization is made in respect to those assets.

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

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

## **2.9 Intangible Assets**

Intangible assets include registered trademarks which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful life of 10 years as the lives of these intangible assets are considered finite. Intangible assets are subject to impairment. The carrying amounts of the intangible assets are presented as Trademarks under Other Non-current Assets account in the statement of financial position.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds received and the carrying amount of the asset and is recognized in profit or loss.

## **2.10 Provisions and Contingencies**

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

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

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

## 2.11 Revenue and Expense Recognition

Revenue comprises sale of goods measured by reference to the fair value of consideration received or receivable by the Company for goods sold, excluding value-added tax (VAT).

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

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

The Company determines whether a contract with customer exists by evaluating whether the following gating criteria are present:

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

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

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

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

The Company often enters into transactions involving the sale of goods representing compounds, pipes and roofing products. The transaction price allocated to the performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. As a matter of accounting policy when applicable, if the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

Specifically, revenue from sale of goods is recognized when the control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has

acknowledged delivery of goods. Invoices for goods transferred are due upon receipt by the customer. The significant judgments in determining the timing of satisfaction of the performance obligation.

The Company also assesses its revenue agreements 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.

As applicable, if the Company is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period. Also, if applicable, the Company recognizes a right of return asset on the goods to be recovered from the customers with a corresponding adjustment to Cost of Goods Sold account. However, there were no contracts that contained significant right of return arrangements that remain outstanding during the reporting periods.

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

Costs and expenses are recognized in profit or loss upon utilization of the goods and/or services or at the date they are incurred. All finance costs except for the capitalized borrowing costs, if any, are reported in profit or loss on an accrual basis.

## **2.12 Leases – Company as Lessee**

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

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

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost,

which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset ranging from two to 10 years or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Company measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented separately from property, plant and equipment and other liabilities, respectively.

### **2.13 Foreign Currency Transactions and Translation**

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

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

### **2.14 Impairment of Non-financial Assets**

The Company's property, plant and equipment, right-of-use assets, intangible assets (presented under the Other Non-current Assets account) and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

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

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

## **2.15 Employee Benefits**

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

### *(a) Short-term Employee Benefits*

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

### *(b) Post-employment Defined Benefit Plan*

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

The asset recognized in the statement of financial position for a defined benefit plan is the fair value of plan assets less the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. •

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Finance costs - net in the statement of profit or loss.

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

(c) *Post-employment Defined Contribution Plan*

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

(d) *Termination Benefits*

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



(e) *Compensated Absences*

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

**2.16 Borrowing Costs**

Borrowing costs, which consists of interest and other costs that the Company incurs in connection with borrowing of funds, are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

**2.17 Income Taxes**

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

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

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

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

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

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities for land that is measured using the fair value model the land's carrying amount is presumed to be recovered entirely through sale as an ordinary asset.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax effect is also recognized in other comprehensive income or directly in equity, respectively.

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

## **2.18 Related Party Transactions and Relationships**

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

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

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

Based on the requirements of SEC Memorandum Circular No. 10, Series of 2019, *Rules on Material Related Party Transactions for Publicly-Listed Companies*, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with the related parties are considered material.

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

same BOD approval would be required for the transactions that meet and exceed the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in the discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

## **2.19 Equity**

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

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

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves include the fair value gains and losses due to the revaluation of land and remeasurements of post-employment defined benefit plan.

Retained earnings, the appropriated portion of which, if any, is not available for dividend distribution, represent all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared

## **2.20 Earnings per Share**

Basic earnings per share (EPS) is computed by dividing net profit by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of any dilutive potential shares.

### **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 Judgment 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 and such provision of the contract is not subject to mutual agreement of both parties.

The factors that are normally the most relevant are (a) if there are significant penalties should the Company pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Company considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Company did not include the renewal period as part of the lease term for leases of some of its office space and warehouse due to the provision in its contracts that requires mutual agreement of both parties on the terms and agreements of the renewal and termination of the lease contract.

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

(b) *Determination of Timing of Satisfaction of Performance Obligations*

The Company determines that its revenue from sale of goods 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*

The transaction price, which excludes any amounts collected on behalf of third parties (e.g., VAT), is considered receivable to the extent of products sold with consideration on the right of return, if applicable. Also, the Company uses the practical expedient in PFRS 15, with respect to non-adjustment of the promised amount of consideration for the effects of any financing component [i.e., the Company receives advances from certain customers which can be applied to their future purchases as the Company expects, at contract inception, that the period between when the Company transfers promised goods or services to the customer and payment due date is one year or less.

(d) *Determination of ECL on Trade and Other Receivables*

The Company uses a provision matrix to calculate ECL for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments to the extent applicable that have similar loss patterns (i.e., by geography, product type, or 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).

(e) *Determination of Cost of Inventories*

In inventory costing, management uses estimates and judgment in properly allocating the labor and overhead between the cost of inventories on hand and cost of goods sold. Currently, the Company allocates manufacturing overhead on the basis of actual units produced. However, the amount of costs charged to finished goods inventories would differ if the Company utilized a different allocation base. Changes in allocated cost would affect the carrying cost of inventories and could potentially affect the valuation based on lower of cost and net realizable value.

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies.

### 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 Liabilities*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. 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 and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost 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).

(c) *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. Even though the Company's core business is not continuously subject to rapid technological changes which may cause inventory obsolescence, future realization of the carrying amounts of inventories is still affected by price changes. Such aspect is considered a key source of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial reporting period.

There was no inventory write-down to recognize the inventories at their net realizable value in 2023, 2022 and 2021 based on management's assessment.

*(d) Estimation of Useful Lives of Property, Plant and Equipment, Right-of-use Assets and Intangible Assets*

The Company estimates the useful lives of property, plant and equipment, right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets 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.

Based on management's assessment as at September 30, 2023 and December 31, 2022 there is no change in estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in the factors mentioned above.

*(e) Measurement of Fair Value of Land*

The Company's land is carried at revalued amount at the end of the reporting period. In determining its fair value, the Company engages the services of professional and independent appraisers applying the relevant valuation methodology.

When the appraisal is conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

*(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 at September 30, 2023 and December 31, 2022 will be fully utilized in the coming years.

*(g) Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of property, plant and equipment, right-of-use assets, intangible assets and other non-financial assets is discussed in Note 2.14 of its 2022 Audited Financial Statement. Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in these 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.

There was no impairment loss recognized on non-financial assets in 2023, 2022 and 2021.

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

The determination of the Company's obligation 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 and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment defined benefit obligation in the next reporting period.

**4. SEGMENT REPORTING**

**4.1 Business Segments**

The Company is organized into business units based on its products for purposes of management assessment of each unit. For management purposes, the Company is organized into four major business segments, namely: compounds, pipes, Polypropylene Random (PPR)/High-density Polyethylene (HDPE) and roofing. These are also the basis of the Company in reporting to its chief operating decision-maker for its strategic decision-making activities.

The products under the compounds segment are the following:

- Polyvinyl Chloride (PVC) compounds for wires and cable; and,
- PVC for bottles, integrated circuit tubes packaging, films and footwear.

The products under the pipes segment are only the PVC pipes and fittings.

The products under the PPR/HDPE segment are the following:

- PPR Copolymer Type 3 pipes and fittings; and,
- HDPE pipes and fittings.

The product under the roofing segment is only the unplasticized PVC roofing material, which started sales to the public in 2018.

The Company's products are located in Guiguinto, Bulacan; Davao branch; Cebu branch; and Valenzuela branch.

Prior to 2021, the Company is presenting three major business segments in the financial statements, namely: compounds, pipes and roofing. In 2021, the Company's management decided to further breakdown the pipes segment into pipes and PPR/HDPE, thereby creating a new business segment. The Company's management also updated the 2020 and 2019 presentation of segment reporting to conform with the current year presentation.

**4.2 Segment Assets and Liabilities**

Segment assets are allocated based on their use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of property, plant and equipment, trade and other receivables and inventories, net of allowances and provisions. Segment assets do not include deferred taxes. Segment

liabilities, however, were not presented as this measure is not regularly being provided to the chief operating decision-maker.

#### **4.3 Intersegment Transactions**

Segment revenues, expenses and performance do not include sales and purchases between business segments.

#### **4.4 Disaggregation of Revenues**

When the Company prepares its investor presentations and when the Company's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment. The Company determines that the categories used in the investor presentations and financial reports used by the Company's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

### **5. POST-EMPLOYMENT DEFINED BENEFIT PLAN**

#### **5.1 Characteristics of Post-employment Defined Benefit Plan**

The Company maintains a tax-qualified, partially funded and non-contributory post-employment defined benefit plan covering all regular full-time employees. The Company conforms with the minimum regulatory benefit of Republic Act (R.A.) 7641, *The Retirement Pay Law*, which is of a defined benefit type and provides for a lump sum retirement benefit equal to 22.5-day pay for every year of credited service. The normal retirement age is 60 with a minimum of five years of credited service. In 2021, the Company's BOD approved the amendment on the Company's post-employment defined benefit plan, which resulted in the recognition of past service cost during the year.

#### **5.2 Risks Associated with the Retirement Plan**

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

##### *(i) Investment and 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. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and other assets and if the return on plan assets falls below this rate, it will create a deficit in the plan.

##### *(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.

### 5.3 Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Company's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment defined benefit plan are described below and in the succeeding page.

#### (i) *Sensitivity Analysis*

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above 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*

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

A large portion of the plan assets as of September 30, 2023 and December 31, 2022 consists of debt securities and readily available cash and cash equivalents, pending placement in investments with balanced risks and rewards optimization. The Company also has UITF for liquidity purposes.

There has been no change in the Company's strategies to manage its risks from previous periods.

#### (iii) *Funding Arrangements and Expected Contributions*

The Company is not required to pre-fund the future defined benefits payable under the plan assets before they become due. For this reason, the amount and timing of contributions to the plan assets are at the Company's discretion. However, in the event a benefit claim arises and the plan assets are insufficient to pay the claim, the shortfall will be due, demandable and payable from the Company to the plan assets

## **6. RELATED PARTY TRANSACTIONS**

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

### **6.1 Sale of Goods**

The Company sells finished goods to related parties under common ownership. Goods are sold on the basis of the price lists in force and terms that would be available to non-related parties. The outstanding receivables from sale of goods, which are generally noninterest-bearing, unsecured and settled through cash within three to six months, are presented as part of Trade receivables under Trade and Other Receivables in the statements of financial position.

### **6.2 Purchase of Goods and Services**

Goods and services are purchased on the basis of the price lists in force with non-related parties. The related outstanding payables for goods and services purchased in 2023 and 2022 are presented as part of Trade payables under Trade and Other Payables in the statements of financial position. The outstanding payables from purchase of goods and services are generally noninterest-bearing, unsecured and settled through cash within three months.

The Company acquires the services of Husky Plastics Corporation (Husky), a related party under common ownership, for the conversion of its pipe fittings. The Company provides its own raw materials to Husky for processing into finished goods. Once the processing is completed, the Company records the amount incurred for the services of Husky as part of the finished goods based on the billings received. The basis of the price charged to the Company is in line with Husky's prevailing market rates.

The related outstanding payables for these services from Husky as of September 30, 2023 and December 31, 2022 are presented as part of Trade payables under Trade and Other Payables in the statements of financial position. The outstanding payables from purchase of services are generally noninterest-bearing, unsecured and settled through cash within three months.

### **6.3 Lease of Properties**

The Company entered into lease contracts with a related party under common ownership covering its office spaces and warehouse with lease terms ranging from two to five years.

The related deposit, which is refundable at the termination of the lease term, is presented as part of Security deposits under Other Non-current Assets in the statements of financial position.

## 7. COMMITMENTS AND CONTINGENCIES

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

### 7.1 Unused Credit Lines

The Company had P420.0 million of unused credit lines of the approved Omnibus Line of Credit from local banks granted as of September 30, 2023 and December 31, 2022.

### 7.2 Others

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements. As of September 30, 2023 and December 31, 2022, management and its legal counsel are of the opinion that losses, if any, from these items will not have a material effect on the Company's financial statements.

## 8. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated by its BOD, and focuses on actively securing the Company's closely 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 pages.

### 8.1 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 sales and purchases, which are primarily denominated in United States (U.S.) dollars. The Company also holds U.S. dollar-denominated cash and cash equivalents.

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

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency denominated transactions.

*(b) Interest Rate Risk*

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually made at fixed rates. At September 30, 2023 and December 31, 2022, the Company is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates. All other financial assets and liabilities have fixed rates.

## **8.2 Credit Risk**

Credit risk is the risk that counterparty may fail to discharge an obligation to the Company. 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.

None of the financial assets are secured by collateral or other credit enhancements except for cash and cash equivalents and certain trade receivables with entrusted and on hand post-dated checks issued by the customers.

*(a) Cash and Cash Equivalents*

The credit risk for cash is considered negligible, since bank deposits are only maintained with reputable financial institutions, as a matter of Company's policy. Included in cash are cash in banks which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

*(b) Trade and Other Receivables*

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables.

To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due (age buckets). The Company also concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the other receivables as it shares the same credit risk characteristics.

The expected loss rates are based on the payment and aging profiles over a period of 36 months before September 30, 2023 and December 31, 2022, 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. The Company has identified that the inflation rate and/or government spending were the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The Company identifies a default when the receivables become credit impaired or when the customer has not able to settle the receivables within the normal credit

terms of 30 to 90 days, depending on the terms with customers; hence, these receivables were already considered as past due on its contractual payment. In addition, the Company considers qualitative assessment in determining default such as in instances where the customer is unlikely to pay its obligations and is deemed to be in significant financial difficulty.

*(c) Security deposits*

With respect to refundable security deposits, management assessed that these financial assets have low probability of default since the Company has utility contract and operating lease contracts as lessee with the counterparties. The Company can apply such deposits to future payments in case it defaults.

### **8.3 Liquidity Risk**

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments, if any, 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 short-term placements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

### **8.4 Offsetting Financial Assets and Financial Liabilities**

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Company and counterparties (i.e., related parties) allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

By default, the Company does not elect to settle financial assets and financial liabilities with counterparties through offsetting. Gross settlement is generally practiced.

## **9. FAIR VALUE MEASUREMENTS AND DISCLOSURES**

### **9.1 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 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.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Company uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

The Company has no financial assets or financial liabilities measured at fair values.

## **9.2 Fair Value Measurement for Non-financial Assets**

The fair value of the Company's land amounting to P447.9 million as of September 30, 2023 and December 31, 2022, is classified under Level 3 in the fair value hierarchy. The Level 3 fair value of land was derived using market comparable approach that reflects recent transaction prices for similar properties in nearby locations, adjusted for key attributes such as property size, age, condition and accessibility of the land. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

There has been no change to the valuation techniques used by the Company during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2023 and 2022.

## **10. 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 stockholders 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.

There were no internally and externally imposed capital requirements to be complied with as of September 30, 2023 and December 31, 2022.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, issue new shares or sell assets to reduce debt.

**Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition**

**Results of Operation**

**(Based on Financial Statements adopted in accordance with the Philippine Financial Reporting Standards)**

**Review of September 30, 2023 versus September 30, 2022**

Overall sales revenues decreased by 16.44% from Php1.407M in 2022 to Php1.176 in 2023. The first quarter of the year was difficult for the Company with revenue falling behind by Php185.18M as compared to the same period last year, of which 51% was due to the decline in exports sales of the Compounds Division. The said segment, however, recovered in quarters 2 and 3, posting a growth of 17.47% and 44.57%, respectively. Pipes Division, on the other hand, continues to decline its sales as compared to 2022. This is due to the slowdown in private projects primarily due to high interest rates.

Cost of Sales decreased by 24.46% from Php980.80M to Php740.88M. This is significantly due to the decrease in sales for the period. Also contributing to the decline in cost of sales is the drop in the unit purchase price of major raw materials used in production.

Gross Profit increased by 2.01% from Php426.46M to Php435.03M despite the decline in sales revenues. This is due to the decrease in the raw materials unit price which added to the decrease in cost of sales.

Other Income (Charges) increased by 15.27% from Php7.23M to Php8.34M. This is due to interest earned from cash in time deposits.

Income Tax Expense increased by 8.18% or by Php5.33M due to the increase in taxable income driven by higher gross profit for the period.

Net Profit After Tax increased by 4.12% or Php8.25M mainly due to the increase in gross profit generated for the period.

**Financial Condition**

**Review of financial condition as of September 30, 2023 compared with financial condition as of December 31, 2022**

Cash and cash equivalents increased by 58.05% or by Php148.05M from Php255.03M to Php403.07M. This is due to the collections and advance payment from customers. Further, there were less payments to raw materials suppliers as purchases for the period decreased by 28.72% as compared to same period last year.

Trade and other receivables increased by 43.47% or by Php128M from Php294.42M to P422.42M. This is due to the sales generated during the period with longer average collection in days as compared to first half last year. Also, the Company entered a contract to sale with one of



this affiliated companies to purchase a parcel of land that will be used in operations. The land will be paid within 4 years and the first payment was made in quarter 3 amounting to Php28.446M, net of applicable taxes.

Prepayments and other current assets decreased by 12.42% of by P14.48M from P116.58M to P102.11M. This is due to the application of input tax against output vat on sales during the period.

Right of use asset decreased by 22.37% or by Php3.30M from Php14.76M to Php11.46M resulting from the monthly depreciation of right of use asset.

Post-employment defined benefit asset decreased by 52.41% or by Php2.45M from Php4.67M to Php2.22M due to the monthly accrual of retirement expense.

Other non-current assets decreased by 41.45% or by Php5.31M from Php12.82M to Php7.50M due to the receipt of goods paid in advance to suppliers.

Loans and mortgage payable decreased by 94.09% or by Php1.81M from Php1.98M to Php0.18M due to the payment of monthly amortization of mortgage loan on company trucks.

Current Lease Liability decreased by 78.65% or by Php3.41M from Php4.33M to P0.92M. This is due to the amortization of financial lease on the right of use asset.

Income Tax Payable increased 248.51% or by Php22.88M from P9.21M to P32.09M. This is due to lower taxable income generated in Q4 of 2022 as compared to 3rd quarter of 2023.

Retained Earnings increased by 17.35% resulting from the generated net profit after tax during the period amounting to Php208.24M reduced by the P54.96M dividends paid in May and July 2023.

### **Material Changes as of September 30, 2023 Financial Statements**

#### **Statement of Financial Position**

#### **(Increase/decrease of 5% or more versus December 31, 2022)**

58.05% increase in cash and cash equivalents

Due to collections and advance payments from customers, and less payments to raw materials suppliers due to the decrease in raw materials purchases.

43.47% increase in trade and other receivables

Due to the sales generated for the period, slower days collection from customers, and advance payment made to an affiliated company to purchase a parcel of land.

12.42% decrease in prepayments and other current assets – net

Due to the application of input tax against output vat during the period.

22.37% decrease in right of use asset – net

Due to monthly depreciation of right of use asset

52.41% decrease in the post-employment benefit asset  
Due to the monthly accrual of retirement expense

41.45% decrease in other non-current assets  
Due to the receipt of goods that was paid in advance to suppliers

94.09% decrease in loans and mortgage payable  
Due to payment of monthly amortization of mortgage loan on company trucks.

78.65% decrease in lease liability-current  
Due to amortization of financial lease on the right of use asset (ROU).

248.51% increase in income tax payable  
Due to lower net taxable profit in Q4 of 2022 as compared to Q3 of the current year

17.35% increase in retained earnings  
Due to the generated profit as of September 30, 2023 amounting to Php208.24M reduced by the P54.96M dividends paid in May and July 2023

### **Statement of Income**

**(Increase/decrease of 5% or more versus September 30, 2022)**

16.44% decrease in sales revenues  
Due to the decrease in export sales transactions and slowdown in private project resulting from higher interest rates.

24.46% decrease in cost of sales  
Due to the decline in sales and the unit cost of raw materials

2.01% increase in gross profit  
Due to the decrease in the unit cost of materials used in production, offset by the decline in sales.

15.27% decrease in other income (charges)  
Due to the interest earned from time deposits.

8.18% increase in income tax expense  
Due to the increase in net taxable profit during the period driven by the increase in gross profit

4.12% increase in net profit after tax  
Due to the increase in gross profit generated for the period ended September 30, 2023.

There are no other significant changes in the Company's financial position (5% or more) and condition that will warrant a more detailed discussion. Further, there are no material events and uncertainties known to management that would have impact or change the reported financial information and condition of the Company.

There are no known trends or demands, commitments, events or uncertainties that would result in or that are reasonably likely to result in increasing or decreasing the Company's liquidity in any

material way. The Company does not anticipate having any cash flow or liquidity problems. The Company is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.

The Company has no unusual nature of transactions or events that affects assets, liabilities, equity, net income or cash flows.

The unaudited interim financial statements do not include all the information or disclosure required in the financial statements and should be read in conjunction with the Company's audited annual financial statements as of and for the year ended December 31, 2022.

The accounting policies and methods of computation adopted in preparation of the Company's unaudited interim financial statements are the same with the most recent audited annual financial statements for the year ended December 31, 2022.

There were no known material events subsequent to the end of the interim period that have not been reflected in the Company's Financial Statements for the first quarter of 2023.

There were no changes in estimates of amount reported in the current financial year or changes in estimates of amounts reported in prior financial years.

There was no contingent liability reflected in the most recent annual financial statements, the same in the current year financial statements for the first quarter of 2023. There are no commitments, guarantees, and contingent liabilities that arise in the normal course of operations of the Company which are not reflected in the accompanying interim financial statements. The management of the Company is of the opinion that losses, if any, from these items will not have any material effect on its interim financial statements.

There are no material commitments for capital expenditures, events or uncertainties that have had or that are reasonable expected to have material impact on the continuing operations of the Company.

Item 3 - Aging of Accounts Receivable

EXHIBIT 7

**CROWN ASIA CHEMICALS CORPORATION**

*(Formerly Crown Asia Compounds Corporation)*

**Aging of Accounts Receivable**

**As of September 30, 2023**

*(Amounts in Philippine Pesos)*

**(UNAUDITED)**

Type of Receivable	Balance	Not yet due	1 - 30 Days	Over 30 Days	Over 60 days	Over 90 days	Over 120 days
a. Trade and Other Receivables-net	<u>422,420,469</u>	<u>344,494,724</u>	<u>32,328,776</u>	<u>21,731,617</u>	<u>8,405,842</u>	<u>1,646,445</u>	<u>13,813,066</u>

## Item 4 – Key Performance Indicators

## Key Performance Indicators

LIQUIDITY RATIOS		
Key Indicators	September 30, 2023	December 31, 2022
Current ratio	5.25 : 1.00	5.95 : 1.00
Acid test ratio	2.65 : 1.00	2.39 : 1.00
Book value per share	3.13	2.88
SOLVENCY RATIOS		
Key Indicators	September 30, 2023	December 31, 2022
Debt to equity ratio	0.17 : 1.00	0.18 : 1.00
Asset to equity ratio	1.20 : 1.00	1.18 : 1.00
PROFITABILITY RATIOS		
Key Indicators	September 30, 2023	September 30, 2022
Earnings per share	0.34	0.33
Return on assets	9.49%	9.80%
Return on equity	11.34%	12.06%
Gross profit ratio	37.00%	30.30%
Net profit ratio	17.71%	14.21%

## Notes:

1. Current Ratio (Current Assets/Current Liabilities)  
To test the Company's ability to pay its short-term debts
2. Acid Test Ratio (Quick Assets/Current Liabilities)  
Measures the Company's ability to pay its short-term debts from its most liquid assets without relying on inventory.
3. Book Value per Share (Equity/Shares Outstanding)  
Measures the amount of net assets available to stockholders of a given type of stock.
4. Debt to Equity Ratio (Total Liabilities/Total Equity)  
Measures the amount of total assets provided by stockholders
5. Asset to Equity Ratio (Total Assets/Total Equity)  
Shows the relationship of the total assets to the portion owned by the stockholders.  
Indicates the Company's leverage, the amount of debt used to finance the firm.
6. Earnings per Share (Net Profit/Shares Outstanding)  
Reflects the Company's earning capability.
7. Return on Assets (Net Profit/Average Total Assets)  
Indicates whether assets are being used efficiently and effectively
8. Return on Equity (Net Profit/Total Equity)  
Measures the company's efficiency in generating profits
9. Gross Profit Ratio (Gross Profit/Revenues)  
Measures the percentage of gross income to sales
10. Net Profit Ratio (Net Profit/Revenues)  
Measures the percentage of net income to sales

**PART II--OTHER INFORMATION**

There is no information not previously reported in a report on SEC Form 17-C.

**SIGNATURES**

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

**CROWN ASIA CHEMICALS CORPORATION**

**Issuer**

By:



**NICASIO T. PEREZ**

VP-Treasurer