



**Report of Independent  
Certified Public Accountants  
to Accompany Income Tax Return**

**Punongbayan & Araullo**  
20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

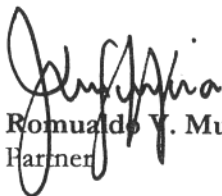
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F +63 2 886 5506  
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**The Board of Directors and the Stockholders  
Crown Asia Chemicals Corporation  
(Formerly Crown Asia Compounders Corporation)**  
Km. 33, McArthur Highway  
Bo. Tuktukan, Guiguinto  
Bulacan

We have audited the financial statements of Crown Asia Chemicals Corporation for the year ended December 31, 2015, on which we have rendered the attached report dated March 22, 2016.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

**PUNONGBAYAN & ARAULLO**

By:  **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 5321731, January 4, 2016, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-2 (until Sept. 5, 2016)  
Firm - No. 0002-FR-4 (until Apr. 30, 2018)  
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 22, 2016

**Certified Public Accountants**  
Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002  
SEC Accreditation No. 0002-FR-4



**P&A**  
**Grant Thornton**

An instinct for growth™

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## Report of Independent Auditors

**The Board of Directors and the Stockholders**  
**Crown Asia Chemicals Corporation**  
*(Formerly Crown Asia Compounders Corporation)*  
Km. 33, McArthur Highway  
Bo. Tuktukan, Guiguinto  
Bulacan

### Report on the Financial Statements

We have audited the accompanying financial statements of Crown Asia Chemicals Corporation which comprise the statements of financial position as at December 31, 2015 and 2014 and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### **Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

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SEC Accreditation No. 0002-FR-4

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

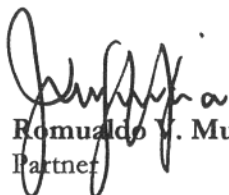
*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Crown Asia Chemicals Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

### Report on Other Legal and Regulatory Requirements

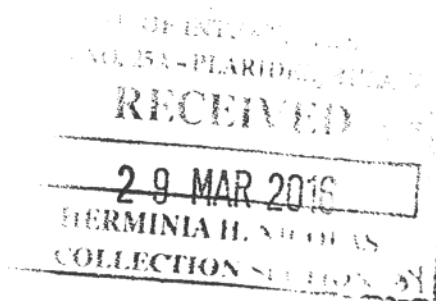
Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2015 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

  
By: **Romualdo V. Murcia III**  
Partner

CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 5321731, January 4, 2016, Makati City  
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Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

March 22, 2016



**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2015 AND 2014**  
*(Amounts in Philippine Pesos)*

|  | Notes | 2015                   | 2014                 |
|--|-------|------------------------|----------------------|
| <b><u>ASSETS</u></b>                       |       |                        |                      |
| <b>CURRENT ASSETS</b>                      |       |                        |                      |
| Cash and cash equivalents                  | 5     | P 118,822,778          | P 34,317,966         |
| Trade and other receivables - net          | 6     | 253,251,344            | 212,384,476          |
| Inventories                                | 7     | 300,856,055            | 303,779,812          |
| Prepayments and other current assets - net | 8     | 59,167,989             | 53,753,786           |
| Total Current Assets                       |       | <u>732,098,166</u>     | <u>604,236,040</u>   |
| <b>NON-CURRENT ASSETS</b>                  |       |                        |                      |
| Property, plant and equipment - net        | 9     | 254,068,132            | 214,931,635          |
| Other non-current assets - net             | 10    | 13,857,034             | 9,880,423            |
| Total Non-current Assets                   |       | <u>267,925,166</u>     | <u>224,812,058</u>   |
| <b>TOTAL ASSETS</b>                        |       | <b>P 1,000,023,332</b> | <b>P 829,048,098</b> |
| <b><u>LIABILITIES AND EQUITY</u></b>       |       |                        |                      |
| <b>CURRENT LIABILITIES</b>                 |       |                        |                      |
| Trade and other payables                   | 11    | P 119,149,897          | P 174,525,685        |
| Interest-bearing loans                     | 12    | -                      | 68,800,000           |
| Income tax payable                         |       | 13,494,191             | 7,775,606            |
| Total Current Liabilities                  |       | <u>132,644,088</u>     | <u>251,101,291</u>   |
| <b>NON-CURRENT LIABILITIES</b>             |       |                        |                      |
| Mortgage payable                           | 11    | 1,797,401              | 3,634,620            |
| Post-employment defined benefit obligation | 15    | 6,277,496              | 3,973,464            |
| Deferred tax liabilities - net             | 16    | 9,346,713              | 7,393,247            |
| Advances from stockholders                 | 17    | 46,057                 | 46,057               |
| Total Non-current Liabilities              |       | <u>17,467,667</u>      | <u>15,047,388</u>    |
| Total Liabilities                          |       | <u>150,111,755</u>     | <u>266,148,679</u>   |
| <b>EQUITY</b>                              |       |                        |                      |
| Capital stock                              | 18    | 630,800,000            | 472,800,000          |
| Additional paid-in capital                 | 18    | 52,309,224             | -                    |
| Revaluation reserves                       | 9, 15 | 33,651,956             | 32,095,999           |
| Retained earnings                          | 18    | 133,150,397            | 58,003,420           |
| Total Equity                               |       | <u>849,911,577</u>     | <u>562,899,419</u>   |
| <b>TOTAL LIABILITIES AND EQUITY</b>        |       | <b>P 1,000,023,332</b> | <b>P 829,048,098</b> |

29 MAR 2016  
 TERMINAL SERVICES  
 COLLECTION SECTION

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

|   | Notes         | 2015            | 2014          | 2013          |
|---|---------------|-----------------|---------------|---------------|
| REVENUES  | 2, 17         | P 1,072,844,233 | P 850,741,623 | P 801,819,234 |
| COST OF GOODS SOLD                                | 13            | 795,231,133     | 639,430,922   | 628,526,560   |
| GROSS PROFIT                                      |               | 277,613,100     | 211,310,701   | 173,292,674   |
| OTHER OPERATING EXPENSES                          | 14            | 126,735,176     | 115,958,689   | 103,861,565   |
| OTHER INCOME (CHARGES)                            |               |                 |               |               |
| Impairment loss on applied tax credit certificate | 8             | ( 7,015,497 )   | -             | -             |
| Foreign currency gains - net                      |               | 5,716,946       | 697,098       | 1,977,938     |
| Finance costs                                     | 6, 11, 12, 15 | ( 3,390,231 )   | ( 3,392,988 ) | ( 2,352,445 ) |
| Finance income                                    | 5, 6          | 145,517         | 1,065,853     | 1,272,291     |
| Other income                                      | 9             | 17,374          | -             | 743,754       |
|   |               | ( 4,525,891 )   | ( 1,630,037 ) | 1,641,538     |
| PROFIT BEFORE TAX                                 |               | 146,352,033     | 93,721,975    | 71,072,647    |
| TAX EXPENSE                                       | 16            | 46,205,056      | 28,341,652    | 21,324,702    |
| NET PROFIT  |               | P 100,146,977   | P 65,380,323  | P 49,747,945  |
| BASIC AND DILUTED EARNINGS PER SHARE              | 19            | P 0.17          | P 0.14        | P 0.11        |

*See Notes to Financial Statements.*

129 MAR 2016  
 CROWN ASIA CHEMICALS CORPORATION  
 REGISTERED OFFICE  
 11th Floor, 11th Street, Alabang, Muntinlupa City, Philippines

CROWN ASIA CHEMICALS CORPORATION  
 (Formerly Crown Asia Compounders Corporation)  
 STATEMENTS OF COMPREHENSIVE INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013  
 (Amounts in Philippine Pesos)

|  | Notes | 2015                 | 2014                | 2013                |
|--|-------|----------------------|---------------------|---------------------|
| NET PROFIT   |       | P 100,146,977        | P 65,380,323        | P 49,747,945        |
| OTHER COMPREHENSIVE INCOME (LOSS)                                  |       |                      |                     |                     |
| Items that will not be reclassified subsequently to profit or loss |       |                      |                     |                     |
| Revaluation increment on land                                      | 9     | 5,389,000            | 4,890,000           | -                   |
| Remeasurements of post-employment defined benefit plan             | 15    | ( 3,166,204 )        | ( 1,326,808 )       | 4,760,001           |
| Tax expense  | 16    | ( 666,839 )          | ( 1,068,958 )       | ( 1,428,000 )       |
|  |       | <u>1,555,957</u>     | <u>2,494,234</u>    | <u>3,332,001</u>    |
| TOTAL COMPREHENSIVE INCOME   |       | P <u>101,702,934</u> | P <u>67,874,557</u> | P <u>53,079,946</u> |

*See Notes to Financial Statements.*

29 MAR 2016

CROWN ASIA CHEMICALS CORPORATION  
*(Formerly Crown Asia Compounds Corporation)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

| Note                                    | Capital Stock | Additional<br>Paid-in Capital | Retained Earnings |                 | Total           | Amount for<br>Future Stock<br>Subscription | Revaluation<br>Reserves | Total<br>Equity |
|---|---------------|-------------------------------|-------------------|-----------------|-----------------|--|-------------------------|-----------------|
|   |               |                               | Appropriated      | Unappropriated  |                 |  |                         |                 |
|   | P 472,800,000 | P -                           | P 58,003,420      | P 58,003,420    | P 58,003,420    | P -  | P 32,095,999            | P 562,899,411   |
| Balance at January 1, 2015              | 158,000,000   | 52,309,224                    | -                 | -               | -               | -  | -                       | 210,309,224     |
| Issuance of shares during the year      | -             | -                             | -                 | ( 25,000,000 )  | ( 25,000,000 )  | -  | -                       | ( 25,000,000 )  |
| Cash dividend                           | -             | -                             | -                 | 100,146,977     | 100,146,977     | -  | 1,555,957               | 101,702,934     |
| Total comprehensive income for the year | -             | -                             | -                 | -               | -               | -  | -                       | -               |
| 18                                      | P 630,800,000 | P 52,309,224                  | P -               | P 133,150,397   | P 133,150,397   | P -  | P 33,651,956            | P 849,911,577   |
| Balance at December 31, 2015            |               |                               |                   |                 |                 |  |                         |                 |
|   | P 352,800,000 | P -                           | P 40,000,000      | P 79,623,097    | P 119,623,097   | P -  | P 29,601,765            | P 502,024,862   |
| Balance at January 1, 2014              | 120,000,000   | -                             | -                 | ( 120,000,000 ) | ( 120,000,000 ) | -  | -                       | -               |
| Stock dividend                          | -             | -                             | -                 | 40,000,000      | 40,000,000      | -  | -                       | -               |
| Reversal of appropriation               | -             | -                             | ( 40,000,000 )    | -               | -               | -  | -                       | -               |
| Cash dividend                           | -             | -                             | -                 | ( 7,000,000 )   | ( 7,000,000 )   | -  | -                       | ( 7,000,000 )   |
| Total comprehensive income for the year | -             | -                             | -                 | 65,380,323      | 65,380,323      | -  | 2,494,234               | 67,874,557      |
| 18                                      | P 472,800,000 | P -                           | P -               | P 58,003,420    | P 58,003,420    | P -  | P 32,095,999            | P 562,899,419   |
| Balance at December 31, 2014            |               |                               |                   |                 |                 |  |                         |                 |
|   | P 10,000,000  | P -                           | P 72,000,000      | P 9,875,152     | P 81,875,152    | P 342,800,000                              | P 26,269,764            | P 460,944,916   |
| Balance at January 1, 2013              | 342,800,000   | -                             | -                 | -               | -               | ( 342,800,000 )                            | -                       | -               |
| Issuance of shares during the year      | -             | -                             | -                 | 32,000,000      | 32,000,000      | -  | -                       | -               |
| Reversal of appropriation               | -             | -                             | ( 32,000,000 )    | ( 12,000,000 )  | ( 12,000,000 )  | -  | -                       | ( 12,000,000 )  |
| Cash dividend                           | -             | -                             | -                 | 49,747,945      | 49,747,945      | -  | 3,332,001               | 53,079,946      |
| Total comprehensive income for the year | -             | -                             | -                 | -               | -               | -  | -                       | -               |
| 18                                      | P 352,800,000 | P -                           | P 40,000,000      | P 79,623,097    | P 119,623,097   | P -  | P 29,601,765            | P 502,024,862   |
| Balance at December 31, 2013            |               |                               |                   |                 |                 |  |                         |                 |

See Notes to Financial Statements.



**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

|  | Notes      | 2015                 | 2014                  | 2013                |
|--|------------|----------------------|-----------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                  |            |                      |                       |                     |
| Profit before tax  |            | P 146,352,033        | P 93,721,975          | P 71,072,647        |
| Adjustments for:   |            |                      |                       |                     |
| Depreciation and amortization                                | 9, 10      | 24,536,438           | 22,033,067            | 20,408,837          |
| Unrealized foreign currency gains - net                      |            | ( 3,046,053 )        | ( 4,564,476 )         | ( 974,660 )         |
| Interest expense   | 11, 12, 15 | 2,928,873            | 2,189,021             | 1,309,073           |
| Impairment losses  | 6, 8       | 7,476,855            | 1,203,967             | 1,043,372           |
| Finance income   | 5          | ( 145,517 )          | ( 1,065,853 )         | ( 1,272,291 )       |
| Gain on sale of property and equipment                       | 9          | -                    | -                     | ( 406,183 )         |
| Operating profit before working capital changes              |            | 178,102,629          | 113,517,701           | 91,180,795          |
| Increase (decrease) in trade and other receivables           |            | ( 38,181,102 )       | ( 54,082,856 )        | 12,274,062          |
| Increase (decrease) in inventories                           |            | 2,936,430            | ( 121,905,246 )       | ( 27,718,039 )      |
| Increase in prepayments and other current assets             |            | ( 12,429,701 )       | ( 9,690,847 )         | ( 4,899,001 )       |
| Decrease (increase) in other non-current assets              |            | ( 4,018,210 )        | ( 3,846,193 )         | 258,045             |
| Increase (decrease) in trade and other payables              |            | ( 54,235,918 )       | 45,308,127            | 12,115,284          |
| Decrease in post-employment defined benefit obligation       |            | ( 862,172 )          | ( 2,197,320 )         | ( 5,191,515 )       |
| Cash from (used in) operations                               |            | 71,311,956           | ( 32,896,634 )        | 78,019,631          |
| Cash paid for income taxes                                   |            | ( 39,179,878 )       | ( 30,675,329 )        | ( 18,890,817 )      |
| Net Cash From (Used In) Operating Activities                 |            | 32,132,078           | ( 63,571,963 )        | 59,128,814          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                  |            |                      |                       |                     |
| Acquisition of property, plant and equipment                 | 9          | ( 57,919,525 )       | ( 63,399,360 )        | ( 20,964,537 )      |
| Interest received  |            | 125,552              | 993,483               | 1,030,844           |
| Proceeds from disposal of property, plant and equipment      | 9          | -                    | 2,884,707             | 445,011             |
| Net Cash Used in Investing Activities                        |            | ( 57,793,973 )       | ( 59,521,170 )        | ( 19,488,682 )      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                  |            |                      |                       |                     |
| Issuance of shares of stock                                  | 18         | 210,309,224          | -                     | -                   |
| Payments of mortgage payable and interest-bearing loans      | 11, 12     | ( 71,899,720 )       | ( 1,537,650 )         | ( 1,806,989 )       |
| Dividends paid   | 18         | ( 25,000,000 )       | ( 7,000,000 )         | ( 12,000,000 )      |
| Interest paid  |            | ( 3,141,726 )        | ( 2,149,745 )         | ( 1,251,796 )       |
| Proceeds from interest-bearing loans                         | 12, 17     | -                    | 68,800,000            | -                   |
| Net Cash From (Used in) Financing Activities                 |            | 110,267,778          | 58,112,605            | ( 15,058,785 )      |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents |            | ( 101,071 )          | 52,153                | 974,660             |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  |            | <b>84,504,812</b>    | <b>( 64,928,375 )</b> | <b>25,556,006</b>   |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>        |            | <b>34,317,966</b>    | <b>99,246,341</b>     | <b>73,690,335</b>   |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>              |            | <b>P 118,822,778</b> | <b>P 34,317,966</b>   | <b>P 99,246,341</b> |

**Supplemental Information on Non-cash Investing and Financing Activities:**

- (i) The Company capitalized borrowing costs amounting to P0.3 million in 2015 and P0.1 million in 2014 representing the actual borrowing costs incurred on loans obtained to fund the construction project (see Notes 9 and 12).
- (ii) On September 5, 2014, the Company's Board of Directors and stockholders approved the declaration of stock dividends equivalent to 34.01% of the total issued and outstanding shares of stock amounting to P120.0 million (at P1.0 par value) (see Note 18).
- (iii) In 2015 and 2014, the Company's land was revalued resulting in an increase in the value of such property amounting to P5.4 million and P4.9 million, respectively (see Note 9).

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
*(Formerly Crown Asia Compounders Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015, 2014 AND 2013**  
*(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.

On September 5, 2014, the BOD and shareholders approved the Company's application for the registration of 630.8 million of its common shares with the SEC and apply for the listing thereof in the Philippine Stock Exchange (PSE). The BOD's approval covered the planned initial public offering of 158.0 million unissued common shares of the Company. The Company's shares were listed on the PSE on April 27, 2015.

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 financial statements of the Company as of and for the year ended December 31, 2015 (including the comparative financial statements as of December 31, 2014 and for the years ended December 31, 2014 and 2013) were authorized for issue by the Company's BOD on March 22, 2016.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all 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 Amendments to PFRS

### (a) Effective in 2015 that are Relevant to the Company

The Company adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after July 1, 2014, for its annual reporting period beginning January 1, 2015:

|                     |   |  |
|---------------------|---|--|
| PAS 19 (Amendment)  | : | Employee Benefits – Defined Benefit Plans – Employee Contributions       |
| Annual Improvements | : | Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) |

Discussed below are the relevant information about these amendment and improvements.

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Company's financial statements since the Company's defined benefit plan does not require employees or third parties to contribute to the benefit plan.
- (ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify the existing requirements:

#### *Annual Improvements to PFRS (2010-2012 Cycle)*

- PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

- PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

*Annual Improvement to PFRS (2011-2013 Cycle)*

PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32, *Financial Instruments: Presentation*.

*(b) Effective in 2015 that are not Relevant to the Company*

The following annual improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2014 but are not relevant to the Company's financial statements:

|                        |   |
|------------------------|---|
| PFRS (2010-2012 Cycle) |   |
| PFRS 2 (Amendment)     | : Share-based Payment – Definition of Vesting Condition                                     |
| PFRS 3 (Amendment)     | : Business Combinations – Accounting for Contingent Consideration in a Business Combination |
| PFRS (2011-2013 Cycle) |   |
| PFRS 3 (Amendment)     | : Business Combinations – Scope Exceptions for Joint Ventures                               |
| PAS 40 (Amendment)     | : Investment Property – Clarifying the Interrelationship between PFRS 3 and PAS 40          |

*(c) Effective Subsequent to 2015 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 which are adopted by the FRSC. Management will adopt the relevant pronouncements discussed in the succeeding page 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 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (ii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Company does not expect to implement PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Company and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (iv) Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Company but management does not expect these to have material impact on the Company's financial statements:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

- PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

### ***2.3 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 and service lines as disclosed in Note 4, which represent the main products and services provided by the Company.

Each of these operating segments is managed separately as each of these service 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 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.

### ***2.4 Financial Assets***

Financial assets are recognized when the Company becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: FVTPL, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

The only financial asset category that is relevant to the Company is loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period which are classified as non-current assets.



The Company's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances to suppliers and contractors) and Security deposits (presented under Other Non-current Assets account) in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is an objective evidence that the Company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets (or where applicable, a part of a financial asset or part of 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.

### ***2.5 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 normal operating capacity. The cost of raw materials include 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 is the current replacement cost.

### ***2.6 Prepayments and Other Current Assets***

Prepayments and other current assets pertain to other resources controlled by the Company as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Company and the asset has a cost or value that can be measured reliably.

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

### ***2.7 Property, Plant and Equipment***

Property, plant and equipment, except land, are carried at cost less accumulated depreciation, amortization and any impairment in value. As no infinite 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; 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 valuers once every two years or more frequently if market factors indicate a material change in fair value (see Note 23.3).

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                 | 3-10 years |
| Transportation equipment                  | 3-5 years  |
| Machineries, factory, and other equipment | 3-15 years |
| Land improvements                         | 5 years    |
| Furniture, fixtures and office equipment  | 3-5 years  |

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Notes 2.17, 9 and 12) 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 (see Note 2.15).

The residual values, estimated useful lives and method of depreciation 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 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.

### ***2.8 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 lives over ten years as the lives of these intangible assets are considered finite. Intangible assets are subject to impairment testing as described in Note 2.15. The carrying amounts of the intangible assets are presented as Trademarks under Other Non-current Assets account in the statement of financial position (see Note 10).

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.

### ***2.9 Financial Liabilities***

Financial liabilities, which include Trade and Other Payables (including Mortgage payable but except Advances from customers and tax-related payables), Interest-bearing Loans, and Advances from Stockholders 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 in profit or loss under the caption Finance Costs in the statement of profit or loss.

Interest-bearing loans arise from the funding of certain construction projects and working capital loans raised for support of short-term funding of operations. Finance costs are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables and advances from stockholders 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 shareholders are recognized as financial liabilities upon declaration by the Company's BOD.

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 twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

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

### ***2.10 Offsetting Financial Instruments***

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

### ***2.11 Provisions and Contingencies***

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

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

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

### ***2.12 Revenue and Expense Recognition***

Revenue comprises revenue from 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), rebates and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Company; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, i.e., generally when the customer has acknowledged delivery of goods.
- (b) *Finance income* – This is recognized as the interest accrues taking into account the effective yield on the asset.

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs, which are included as part of the cost of the related qualifying asset (see Note 2.17).

### ***2.13 Leases – Company as Lessee***

Leases which do not transfer to the Company substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Company determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

### ***2.14 Foreign Currency Transactions and Translation***

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

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

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

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

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

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

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

### ***2.16 Employee Benefits***

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

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

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Company, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Company's 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 liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bond, as published by the Philippine Dealing and Exchange Corporation, 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.

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

(b) *Post-employment Defined Contribution Plans*

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

(c) *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, *Provisions, Contingent Liabilities and Contingent Assets*, 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.

(d) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the 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.

**2.17 Borrowing Costs**

Borrowing costs 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.

**2.18 Income Taxes**

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

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

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

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



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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities for land that is measured using the fair value model (see Note 2.7), 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.

### ***2.19 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.

### ***2.20 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.

Amount for future stock subscription represents amounts intended for future subscription of shares of stock of the Company pending receipt of the approval of the SEC for the increase in the authorized capital stock of the Company.

Revaluation reserves account pertains to remeasurement of a post-employment defined benefit plan. It also includes the fair value gains and losses due to the revaluation of land (see Note 2.7).

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

### ***2.21 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 dilutive potential shares.

### ***2.22 Events After the End of the Reporting Period***

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

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

### ***3.1 Critical Management 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) Determining 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 production overhead on the basis of 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.

(b) *Distinction between Operating and Finance Leases*

The Company has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management has assessed that the Company's lease arrangements are operating leases.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant provisions and contingencies are presented in Note 20.

**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) *Impairment of Trade and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(b) *Determining 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 technology changes which may cause inventory obsolescence, future realization of the carrying amounts of inventories as presented in Note 7 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.

(c) *Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets*

The Company estimates the useful lives of property, plant and equipment 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 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.

The carrying amounts of property, plant and equipment and intangible assets (Trademarks under Other Non-current Assets account) are presented in Notes 9 and 10, respectively. Based on management's assessment as at December 31, 2015 and 2014, there is no change in estimated useful lives of property, plant and equipment and intangible assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *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 (see Note 23.3).

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.

A significant change in these elements may affect prices and the value of the assets. The amount of revaluation increment recognized is disclosed in Note 9.

(e) *Determining 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 December 31, 2015 and 2014 will be fully utilized in the coming years. The carrying value of deferred tax assets netted against deferred tax liabilities as of those dates is disclosed in Note 16.

(f) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of property, plant and equipment, intangible assets and other non-financial assets is discussed in Note 2.15. 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 2015, 2014 and 2013, except for the impairment loss recognized on the Company's applied tax credit certificate (TCC) in 2015 (see Note 8).

(g) *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.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 15.2.

#### 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 two major business segments, namely: compounds and pipes. 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 and films.

The products under the pipes segment are the following:

- PVC pipes and fittings;
- Polypropylene Random Copolymer Type 3 (PP-R) pipes and fittings; and,
- High-density Polyethylene (HDPE) pipes and fittings.

The Company's products are located in Guiguinto, Bulacan and in its Davao branch.

##### 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 trade and other receivables and inventories, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of trade and other payables and interest-bearing loans. Segment assets and liabilities do not include deferred taxes and tax liabilities.

### 4.3 Intersegment Transactions

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

### 4.4 Analysis of Segment Information

Segment information can be analyzed as follows:

|  | <u>Compounds</u>     | <u>Pipes</u>        | <u>Total</u>         |
|--|----------------------|---------------------|----------------------|
| <b><u>For the year ended December 31, 2015</u></b>                 |                      |                     |                      |
| <b>Statement of Profit or Loss</b>                                 |                      |                     |                      |
| Revenues   | P 670,802,111        | P 402,042,122       | P 1,072,844,233      |
| Costs and Other Operating Expenses                                 |                      |                     |                      |
| Cost of goods sold (excluding depreciation and amortization)       | 532,632,655          | 245,805,148         | 778,437,803          |
| Depreciation and amortization                                      | 5,587,296            | 17,610,147          | 23,197,443           |
| Other operating expenses (excluding depreciation and amortization) | <u>29,637,546</u>    | <u>61,768,759</u>   | <u>91,406,305</u>    |
|  | <u>567,857,497</u>   | <u>325,184,054</u>  | <u>893,041,551</u>   |
| Other charges – net  | <u>2,215,874</u>     | <u>689,350</u>      | <u>2,905,223</u>     |
| Segment operating profit   | <u>P 100,728,740</u> | <u>P 76,168,718</u> | <u>P 176,897,458</u> |
| <b><u>December 31, 2015</u></b>                                    |                      |                     |                      |
| <b>Statement of Financial Position</b>                             |                      |                     |                      |
| Segment assets   | P 203,279,561        | P 484,732,948       | P 688,012,509        |
| Segment liabilities  | 86,072,103           | 29,317,916          | 115,390,019          |
| <b><u>For the year ended December 31, 2014</u></b>                 |                      |                     |                      |
| <b>Statement of Profit or Loss</b>                                 |                      |                     |                      |
| Revenues   | P 556,807,749        | P 293,933,874       | P 850,741,623        |
| Costs and Other Operating Expenses                                 |                      |                     |                      |
| Cost of goods sold (excluding depreciation and amortization)       | 464,381,853          | 160,687,049         | 625,068,902          |
| Depreciation and amortization                                      | 5,470,705            | 15,519,520          | 20,990,225           |
| Other operating expenses (excluding depreciation and amortization) | <u>27,892,636</u>    | <u>58,585,122</u>   | <u>86,477,758</u>    |
|  | <u>497,745,194</u>   | <u>234,791,691</u>  | <u>732,536,885</u>   |
| Other charges – net  | <u>236,101</u>       | <u>1,066,499</u>    | <u>1,302,600</u>     |
| Segment operating profit   | <u>P 58,826,454</u>  | <u>P 58,075,684</u> | <u>P 116,902,138</u> |
| <b><u>December 31, 2014</u></b>                                    |                      |                     |                      |
| <b>Statement of Financial Position</b>                             |                      |                     |                      |
| Segment assets   | P 230,852,581        | P 404,339,762       | P 635,192,343        |
| Segment liabilities  | 98,898,198           | 69,861,813          | 168,760,011          |
| <b><u>For the year ended December 31, 2013</u></b>                 |                      |                     |                      |
| <b>Statement of Profit or Loss</b>                                 |                      |                     |                      |
| Revenues   | P 522,461,322        | P 279,357,912       | P 801,819,234        |
| Costs and Other Operating Expenses                                 |                      |                     |                      |
| Cost of goods sold (excluding depreciation and amortization)       | 435,175,951          | 179,311,446         | 614,487,397          |
| Depreciation and amortization                                      | 4,947,247            | 14,480,650          | 19,427,897           |
| Other operating expenses (excluding depreciation and amortization) | <u>26,101,788</u>    | <u>50,147,169</u>   | <u>76,248,957</u>    |
|  | <u>466,224,986</u>   | <u>243,939,265</u>  | <u>710,164,251</u>   |
| Other charges (income) – net                                       | ( 1,534,169)         | 524,651             | ( 1,009,517)         |
| Segment operating profit   | <u>P 57,770,505</u>  | <u>P 34,893,996</u> | <u>P 92,664,501</u>  |

Currently, the Company's operation is concentrated within the Philippines for local sales and indirect export sales; hence, it has no geographical segment.

Total revenues include revenues from one major customer totalling 30.21% in 2015 and 21.20% in 2014 and from two major customers totalling 27.96% in 2013.

#### 4.5 Reconciliations

Presented below is a reconciliation of the Company's segment information to the key financial information presented in its financial statements.

|  | <u>2015</u>           | <u>2014</u>          | <u>2013</u>         |
|--|-----------------------|----------------------|---------------------|
| <b>Profit or Loss</b>  |                       |                      |                     |
| Segment results  | P 176,897,458         | P 116,902,138        | P 92,664,501        |
| Other unallocated income   | 168,467               | 423,511              | 1,382,851           |
| Other unallocated expenses   | ( 30,713,892)         | ( 23,603,674)        | ( 22,974,705)       |
| Profit before tax as reported in profit or loss                    | <u>P 146,352,033</u>  | <u>P 93,721,975</u>  | <u>P 71,072,647</u> |
|  | <u>2015</u>           | <u>2014</u>          |                     |
| <b>Assets</b>  |                       |                      |                     |
| Segment assets   | P 688,012,509         | P 635,192,343        |                     |
| Other unallocated assets   | <u>312,010,823</u>    | <u>193,855,755</u>   |                     |
| Total assets reported in the statements of financial position      | <u>P1,000,023,332</u> | <u>P 829,048,098</u> |                     |
| <b>Liabilities</b>   |                       |                      |                     |
| Segment liabilities  | P 115,390,019         | P 168,760,011        |                     |
| Other unallocated liabilities                                      | <u>34,721,736</u>     | <u>97,388,668</u>    |                     |
| Total liabilities reported in the statements of financial position | <u>P 150,111,755</u>  | <u>P 266,148,679</u> |                     |

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

|                           | <u>2015</u>          | <u>2014</u>         |
|---------------------------|----------------------|---------------------|
| Cash on hand and in banks | P 59,265,175         | P 33,351,523        |
| Short-term placements     | <u>59,557,603</u>    | <u>966,443</u>      |
|                           | <u>P 118,822,778</u> | <u>P 34,317,966</u> |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity of 30 days and earn effective interest rates ranging from 1.13% to 1.75% in 2015, 1.00% to 1.25% in 2014 and 3.88% to 4.38% in 2013.

6. **TRADE AND OTHER RECEIVABLES**

This account is composed of the following:

|                           | <u>Note</u> | <u>2015</u>          | <u>2014</u>          |
|---------------------------|-------------|----------------------|----------------------|
| Trade receivables         | 17.1        | P 204,888,524        | P 168,190,000        |
| Advances to:              |             |                      |                      |
| Related parties           | 17.3        | 30,800,000           | 24,800,000           |
| Suppliers and contractors |             | 24,315,077           | 26,058,086           |
| Officers and employees    |             | 554,944              | 530,312              |
| Other receivables         | 17.6        | <u>225,191</u>       | <u>559,473</u>       |
|                           |             | 260,783,736          | 220,137,871          |
| Allowance for impairment  |             | ( <u>7,532,392</u> ) | ( <u>7,753,395</u> ) |
|                           |             | <u>P 253,251,344</u> | <u>P 212,384,476</u> |

Trade receivables are due from various customers and have credit terms of 30 to 90 days. These receivables are normally settled in cash within three to six months. Of the total outstanding trade receivables, P33.1 million and P28.4 million as of December 31, 2015 and 2014, respectively, are guaranteed by customers' post-dated checks in the custody of the Company.

Advances to suppliers and contractors pertain to down payments made by the Company to the suppliers for the purchase of goods and machineries. The advance payments will be set-off as partial payments on the amounts due to the suppliers once full delivery of goods are made and the subsequent billing has been made by the supplier.

Advances to officers and employees are personal cash advances that are settled through salary deduction.

A reconciliation of the allowance for impairment at the beginning and end of 2015 and 2014 is shown below.

|                              | <u>2015</u>        | <u>2014</u>        |
|------------------------------|--------------------|--------------------|
| Balance at beginning of year | P 7,753,395        | P 7,732,633        |
| Impairment losses            | 461,358            | 1,203,967          |
| Write-off                    | ( 682,361 )        | ( 686,296 )        |
| Reversal of allowance        | <u>-</u>           | <u>( 496,909 )</u> |
| Balance at end of year       | <u>P 7,532,392</u> | <u>P 7,753,395</u> |

All of the Company's trade and other receivables have been reviewed for indications of impairment. Certain trade receivables, which are mostly past due, were found to be impaired, hence, adequate amounts of allowance for impairment have been recognized. The amounts of impairment losses and any reversal of allowance are presented as part of Finance Costs and Finance Income, respectively, in the statements of profit or loss.



7. **INVENTORIES**

Inventories are all stated at cost which is lower than their net realizable value. The details of inventories are shown below.

|                     | <u>2015</u>                 | <u>2014</u>                 |
|---------------------|-----------------------------|-----------------------------|
| Finished goods      | P 171,213,640               | P 153,794,162               |
| Raw materials       | 121,549,518                 | 136,701,929                 |
| Packaging materials | 2,513,710                   | 4,511,723                   |
| Supplies            | <u>5,579,187</u>            | <u>8,771,998</u>            |
|                     | <b><u>P 300,856,055</u></b> | <b><u>P 303,779,812</u></b> |

As of December 31, 2014 (nil in 2015), certain raw materials costing P30.3 million are covered by trust receipt payables to a local bank (see Note 11).

An analysis of the cost of inventories included in cost of goods sold for the year is presented in Note 13.

8. **PREPAYMENTS AND OTHER CURRENT ASSETS**

The composition of this account is shown below.

|                          | <u>Note</u> | <u>2015</u>                | <u>2014</u>                |
|--------------------------|-------------|----------------------------|----------------------------|
| Input VAT – net          | 25.1(b)     | P 57,644,421               | P 43,256,679               |
| Application for TCC      |             | 7,015,497                  | 7,015,497                  |
| Prepaid expenses         |             | 1,523,568                  | 1,799,280                  |
| TCC                      |             | <u>-</u>                   | <u>1,682,330</u>           |
|                          |             | 66,183,486                 | 53,753,786                 |
| Allowance for impairment |             | <u>( 7,015,497)</u>        | <u>-</u>                   |
|                          |             | <b><u>P 59,167,989</u></b> | <b><u>P 53,753,786</u></b> |

Application for TCC pertains to input VAT from the Company's importations of raw materials which are under application with the Department of Finance for the granting of TCC as of December 31, 2015 and 2014. As of December 31, 2015, as a result of the uncustomary delay on the issuance of the TCC, the Company's management has assessed that a full allowance on impairment be recognized without prejudice on the final expected outcome of the Company's rightful claim over the TCC. The related impairment loss is presented as Impairment Loss on Applied Tax Credit Certificate in the 2015 statement of profit or loss.

9. **PROPERTY, PLANT AND EQUIPMENT**

The gross carrying amounts and accumulated depreciation and amortization of property, plant and equipment at the beginning and end of 2015 and 2014 are shown below.

|   | <u>Land</u>         | <u>Land Improvements</u> | <u>Building and Improvements</u> | <u>Transportation Equipment</u> | <u>Machineries, Factory, and Other Equipment</u> | <u>Furniture, Fixtures and Office Equipment</u> | <u>Construction in Progress</u> | <u>Total</u>         |
|---|---------------------|--------------------------|----------------------------------|---------------------------------|--|---|---------------------------------|----------------------|
| December 31, 2015                         |                     |                          |                                  |                                 |  |   |                                 |                      |
| Cost or valuation                         | P 83,635,000        | P 1,979,660              | P 89,081,037                     | P 29,663,374                    | P 334,405,842                                    | P 27,297,465                                    | P 17,739,899                    | P 583,802,277        |
| Accumulated depreciation and amortization | -                   | ( 380,320 )              | ( 39,010,737 )                   | ( 24,846,818 )                  | ( 248,321,806 )                                  | ( 17,174,464 )                                  | -                               | ( 329,734,145 )      |
| Net carrying amount                       | <u>P 83,635,000</u> | <u>P 1,599,340</u>       | <u>P 50,070,300</u>              | <u>P 4,816,556</u>              | <u>P 86,084,036</u>                              | <u>P 10,123,001</u>                             | <u>P 17,739,899</u>             | <u>P 254,068,132</u> |
| December 31, 2014                         |                     |                          |                                  |                                 |  |   |                                 |                      |
| Cost or valuation                         | P 78,246,000        | P 483,009                | P 62,244,157                     | P 29,618,491                    | P 289,908,412                                    | P 18,447,217                                    | P 41,223,655                    | P 520,170,941        |
| Accumulated depreciation and amortization | -                   | ( 201,254 )              | ( 33,812,720 )                   | ( 21,874,645 )                  | ( 233,685,224 )                                  | ( 15,665,463 )                                  | -                               | ( 305,239,306 )      |
| Net carrying amount                       | <u>P 78,246,000</u> | <u>P 281,755</u>         | <u>P 28,431,437</u>              | <u>P 7,743,846</u>              | <u>P 56,223,188</u>                              | <u>P 2,781,754</u>                              | <u>P 41,223,655</u>             | <u>P 214,931,635</u> |
| January 1, 2014                           |                     |                          |                                  |                                 |  |   |                                 |                      |
| Cost or valuation                         | P 73,356,000        | P 483,009                | P 62,244,157                     | P 27,316,054                    | P 266,084,393                                    | P 12,432,940                                    | P 9,722,236                     | P 451,638,789        |
| Accumulated depreciation and amortization | -                   | ( 104,652 )              | ( 29,102,100 )                   | ( 18,545,197 )                  | ( 221,163,094 )                                  | ( 11,461,791 )                                  | -                               | ( 280,376,834 )      |
| Net carrying amount                       | <u>P 73,356,000</u> | <u>P 378,357</u>         | <u>P 33,142,057</u>              | <u>P 8,770,857</u>              | <u>P 44,921,299</u>                              | <u>P 971,149</u>                                | <u>P 9,722,236</u>              | <u>P 171,261,955</u> |

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of 2015, 2014 and 2013 is shown below.

|  | <u>Land</u>         | <u>Land Improvements</u> | <u>Building and Improvements</u> | <u>Transportation Equipment</u> | <u>Machineries, Factory, and Other Equipment</u> | <u>Furniture, Fixtures and Office Equipment</u> | <u>Construction in Progress</u> | <u>Total</u>         |
|--|---------------------|--------------------------|----------------------------------|---------------------------------|--|---|---------------------------------|----------------------|
| Balance at January 1, 2015, net of accumulated depreciation and amortization   | P 78,246,000        | P 281,755                | P 28,431,437                     | P 7,743,846                     | P 56,223,188                                     | P 2,781,754                                     | P 41,223,655                    | P 214,931,635        |
| Additions  | -                   | 41,625                   | 943,714                          | 44,883                          | 29,937,025                                       | 3,694,107                                       | 23,593,655                      | 58,255,009           |
| Revaluation  | 5,389,000           | -                        | -                                | -                               | -  | -   | -                               | 5,389,000            |
| Reclassification   | -                   | 1,455,026                | 25,893,166                       | -                               | 14,560,405                                       | 5,156,141                                       | ( 47,077,411 )                  | ( 12,673 )           |
| Depreciation and amortization charges for the year                             | -                   | ( 179,066 )              | ( 5,198,012 )                    | ( 2,972,173 )                   | ( 14,636,582 )                                   | ( 1,509,001 )                                   | -                               | ( 24,494,839 )       |
| Balance at December 31, 2015, net of accumulated depreciation and amortization | <u>P 83,635,000</u> | <u>P 1,599,340</u>       | <u>P 50,070,300</u>              | <u>P 4,816,556</u>              | <u>P 86,084,036</u>                              | <u>P 10,123,001</u>                             | <u>P 17,739,899</u>             | <u>P 254,068,132</u> |
| Balance at January 1, 2014, net of accumulated depreciation and amortization   | P 73,356,000        | P 378,357                | P 33,142,057                     | P 8,770,857                     | P 44,921,299                                     | P 971,149                                       | P 9,722,236                     | P 171,261,955        |
| Additions  | -                   | -                        | -                                | 2,302,438                       | 26,708,727                                       | 1,967,307                                       | 32,557,767                      | 63,536,239           |
| Revaluation  | 4,890,000           | -                        | -                                | -                               | -  | -   | -                               | 4,890,000            |
| Disposals  | -                   | -                        | -                                | -                               | ( 2,884,707 )                                    | -   | -                               | ( 2,884,707 )        |
| Reclassification   | -                   | -                        | -                                | -                               | -  | 1,056,348                                       | ( 1,056,348 )                   | -                    |
| Depreciation and amortization charges for the year                             | -                   | ( 96,602 )               | ( 4,710,620 )                    | ( 3,329,449 )                   | ( 12,522,131 )                                   | ( 1,213,050 )                                   | -                               | ( 21,871,852 )       |
| Balance at December 31, 2014, net of accumulated depreciation and amortization | <u>P 78,246,000</u> | <u>P 281,755</u>         | <u>P 28,431,437</u>              | <u>P 7,743,846</u>              | <u>P 56,223,188</u>                              | <u>P 2,781,754</u>                              | <u>P 41,223,655</u>             | <u>P 214,931,635</u> |
| Balance at January 1, 2013, net of accumulated depreciation and amortization   | P 73,356,000        | P 474,959                | P 34,662,493                     | P 6,206,256                     | P 54,397,789                                     | P 320,429                                       | P 1,327,157                     | P 170,745,083        |
| Additions  | -                   | -                        | -                                | 5,344,429                       | 2,469,233  | 852,355   | 12,298,520                      | 20,964,537           |
| Disposals  | -                   | -                        | -                                | ( 38,828 )                      | -  | -   | -                               | ( 38,828 )           |
| Reclassification   | -                   | -                        | 3,220,806                        | -                               | -  | 682,635   | ( 3,903,441 )                   | -                    |
| Depreciation and amortization charges for the year                             | -                   | ( 96,602 )               | ( 4,741,242 )                    | ( 2,741,000 )                   | ( 11,945,723 )                                   | ( 884,270 )                                     | -                               | ( 20,408,837 )       |
| Balance at December 31, 2013, net of accumulated depreciation and amortization | <u>P 73,356,000</u> | <u>P 378,357</u>         | <u>P 33,142,057</u>              | <u>P 8,770,857</u>              | <u>P 44,921,299</u>                              | <u>P 971,149</u>                                | <u>P 9,722,236</u>              | <u>P 171,261,955</u> |

Land is stated at revalued amount, being the fair value at the date of revaluation in 2015 and 2014. The revaluation surplus, net of applicable deferred tax expense, is presented as part of the Revaluation Reserves account in the statements of financial position.

Had the land been carried using the cost model, the carrying amount would have been P32.9 million as of December 31, 2015 and 2014.

The fair value of land is determined periodically on the basis of the appraisals performed by an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Company's management with respect to the determination of the inputs such as the size, age, and condition of the land, and the comparable prices in the corresponding property location. Other information on the basis of fair value measurement and disclosures related to land is presented in Note 23.3.

Construction in progress pertains to accumulated costs incurred in the construction of the PP-R and HDPE factory building, PP-R/HDPE warehouse, plant electricity consolidation, flood control system, elevated flooring of warehouse and PP-R/HDPE machineries installation. The percentage of completion of construction in progress ranges from 42.00% to 62.00% and 11.00% to 97.00% as of December 31, 2015 and 2014, respectively. These projects that are on-going in 2015 are expected to be completed by the first quarter of 2016.

Included as part of construction in progress pertaining particularly to the factory building project is the capitalized borrowing cost amounting to P0.3 million in 2015 and P0.1 million in 2014 (see Note 12).

In 2015, certain items of construction in progress were expensed outright and recognized as part of repairs and maintenance (see Note 14).

The amount of depreciation and amortization (see Note 14) is allocated and presented in the statements of profit or loss under the following line items:

|                    | <u>2015</u>               | <u>2014</u>               | <u>2013</u>               |
|--------------------|---------------------------|---------------------------|---------------------------|
| Cost of goods sold | <b>P16,793,330</b>        | P14,362,020               | P14,039,164               |
| Operating expenses | <u>7,701,509</u>          | <u>7,509,832</u>          | <u>6,369,673</u>          |
|                    | <b><u>P24,494,839</u></b> | <b><u>P21,871,852</u></b> | <b><u>P20,408,837</u></b> |

The machinery disposed in 2014 was sold to a related party at net book value, which was paid in cash (see Note 17). Accordingly, no gain or loss is recognized. In 2013, the Company recognized a gain on disposal of office furniture and equipment and transportation equipment totaling P0.4 million presented as part of Other income under Other Income (Charges) in the 2013 statement of profit or loss.

Transportation equipment with a total carrying value of P3.4 million and P7.5 million as of December 31, 2015 and 2014, respectively, are used as collaterals for car loans (see Note 11).

As of December 31, 2015 and 2014, the gross carrying amounts of the Company's fully-depreciated property, plant and equipment that are still being used are P35.7 million and P12.2 million in 2015 and 2014, respectively. The Company has no idle properties in any of the years presented.

#### 10. OTHER NON-CURRENT ASSETS

The composition of this account is shown below.

|                    | <u>Note</u> | <u>2015</u>         | <u>2014</u>        |
|--------------------|-------------|---------------------|--------------------|
| Deferred input VAT | 25.1(b)     | P 8,136,393         | P 6,206,266        |
| Security deposits  |             | 5,112,280           | 3,042,695          |
| Trademarks – net   |             | 317,273             | 340,372            |
| Others             |             | <u>291,088</u>      | <u>291,090</u>     |
|                    |             | <u>P 13,857,034</u> | <u>P 9,880,423</u> |

Deferred input VAT [see Note 25.1(b)] pertains to the unamortized input VAT from acquisition of capital assets required by the BIR to be amortized and reported for VAT reporting purposes over the useful lives of the assets or 60 months, whichever is shorter.

Security deposits are payments made to utility companies and lessors of office spaces upon execution of the service contracts. These payments will be refunded at the termination of the contract. As the utility services and lease contracts are expected to be renewed indefinitely, the present value of these financial assets cannot be determined and thus, are carried at cost. As such, the carrying amount of the security deposits is a reasonable approximation of its fair value (see Note 22.1).

Trademarks pertain to the capitalized costs of application and registration with the Intellectual Property Office and Bureau of Product Standards of the Company's logo or brand emblems used as identifying markers of the Company's products. The carrying values of trademarks were presented net of accumulated amortization amounting to P0.2 million as of December 31, 2015 and 2014.

#### 11. TRADE AND OTHER PAYABLES

The composition of this account is shown below.

|                         | <u>Notes</u> | <u>2015</u>          | <u>2014</u>          |
|-------------------------|--------------|----------------------|----------------------|
| Current:                |              |                      |                      |
| Trade payables          | 17.2         | P 101,830,654        | P 125,707,441        |
| Advances from customers |              | 10,510,209           | 7,220,725            |
| Accrued expenses        |              | 2,301,057            | 5,596,217            |
| Mortgage payable        |              | 1,787,080            | 2,477,398            |
| Trust receipt payables  | 7            | -                    | 30,295,918           |
| Others                  |              | <u>2,720,897</u>     | <u>3,227,986</u>     |
|                         |              | 119,149,897          | 174,525,685          |
| Non-current –           |              |                      |                      |
| Mortgage payable        |              | <u>1,797,401</u>     | <u>3,634,620</u>     |
|                         |              | <u>P 120,947,298</u> | <u>P 178,160,305</u> |

Advances from customers pertain to advance payments received from customers to guarantee purchases of goods ordered from the Company. Upon delivery of goods ordered by the customer, the Company will set-off these advances to the total amount of due from customer.

Accrued expenses are liabilities arising from unpaid salaries, interest, utilities and other operating expenses.

In 2014, the Company entered into car loan agreements with local banks for the acquisition of certain transportation equipment and motor vehicles, which are then mortgaged to the banks. The car loans bear fixed annual effective interest which ranges from 9.95% to 12.75% and have terms of five years payable monthly. The related outstanding balances are presented as Mortgage payable under the Trade and Other Payables account in the statements of financial position. No similar transaction occurred in 2015.

Interest expense related to the mortgage payable amounted to P0.4 million, P0.5 million and P0.4 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is shown as part of Finance Costs in the statements of profit or loss.

The trust receipt payables are payable within six months, which bear an interest of 4.25% per annum. Interest expense related to the trust receipt payables amounted to P0.4 million and P0.1 million for the years ended December 31, 2015 and 2014, respectively, and is shown as part of Finance Costs in the statements of profit or loss.

Others include withholding taxes, government insurance and retention commissions payable withheld by the Company from its commission agents as security bond for any unliquidated cash advances.

## 12. INTEREST-BEARING LOANS

In 2014, the Company obtained certain bank loan totalling P68.8 million which is supported by the executed, unsecured, short-term promissory notes with a local bank for additional operating capital requirements and the financing of certain construction projects (see Note 9). This bank loan is payable within six months and bears an interest of 4.25% per annum. Portion of the bank loan obtained amounting P21.1 million were specifically earmarked for the construction projects. The related capitalized borrowing cost in 2015 and 2014 amounted to P0.3 million and P0.1 million, respectively, which formed part of construction in progress account (see Note 9). These loans are under joint and solidary signature guaranty of the major stockholders and corporate officers of the Company (see Note 17.8). This has been fully settled in 2015.

Interest expense incurred related to interest-bearing loans, excluding capitalized borrowing cost, amounted to P1.9 million and P0.2 million for the years ended December 31, 2015 and 2014, respectively, and are shown as part of Finance Costs account in the statements of profit or loss.

### 13. COST OF GOODS SOLD

The details of cost of goods sold are shown below.

|                                     | Notes | 2015                  | 2014                  | 2013                 |
|-------------------------------------|-------|-----------------------|-----------------------|----------------------|
| Finished goods at beginning of year | 7     | <u>P 153,794,162</u>  | <u>P 90,130,860</u>   | <u>P 69,238,179</u>  |
| Cost of goods manufactured:         |       |                       |                       |                      |
| Raw materials at beginning of year  | 7     | <u>136,701,929</u>    | <u>86,038,846</u>     | <u>78,802,884</u>    |
| Net purchases during the year       |       | <u>720,107,109</u>    | <u>682,773,490</u>    | <u>588,110,904</u>   |
| Direct labor                        | 15.1  | <u>14,197,565</u>     | <u>10,472,285</u>     | <u>12,530,563</u>    |
| Manufacturing overhead              | 15.1  | <u>63,193,526</u>     | <u>60,511,532</u>     | <u>56,013,736</u>    |
| Raw materials at end of year        | 7     | <u>( 121,549,518)</u> | <u>( 136,701,929)</u> | <u>( 86,038,846)</u> |
|                                     |       | <u>812,650,611</u>    | <u>703,094,224</u>    | <u>649,419,241</u>   |
| Finished goods at end of year       | 7     | <u>( 171,213,640)</u> | <u>( 153,794,162)</u> | <u>( 90,130,860)</u> |
|                                     |       | <u>P 795,231,133</u>  | <u>P 639,430,922</u>  | <u>P 628,526,560</u> |

### 14. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

|                                | Notes      | 2015                 | 2014                 | 2013                 |
|--------------------------------|------------|----------------------|----------------------|----------------------|
| Materials used in production   |            | <u>P735,259,520</u>  | <u>P 632,110,407</u> | <u>P 580,874,942</u> |
| Salaries and employee benefits | 15         | <u>61,614,934</u>    | <u>53,461,356</u>    | <u>59,234,255</u>    |
| Utilities                      |            | <u>30,462,170</u>    | <u>32,330,542</u>    | <u>33,524,552</u>    |
| Depreciation and amortization  | 9, 10      | <u>24,536,438</u>    | <u>22,033,067</u>    | <u>20,408,837</u>    |
| Outside services               |            | <u>19,293,119</u>    | <u>15,101,203</u>    | <u>6,753,084</u>     |
| Changes in finished goods      |            | <u>( 17,419,478)</u> | <u>( 63,663,302)</u> | <u>( 20,892,681)</u> |
| Transportation and travel      |            | <u>13,104,387</u>    | <u>14,797,314</u>    | <u>11,480,893</u>    |
| Advertising and promotions     |            | <u>10,251,775</u>    | <u>9,885,400</u>     | <u>7,281,663</u>     |
| Supplies                       |            | <u>7,325,247</u>     | <u>7,399,334</u>     | <u>1,523,892</u>     |
| Repairs and maintenance        | 9          | <u>6,733,252</u>     | <u>4,920,368</u>     | <u>4,731,562</u>     |
| Taxes and licenses             | 25.1(f)    | <u>6,056,315</u>     | <u>6,185,745</u>     | <u>6,732,894</u>     |
| Delivery                       |            | <u>5,294,536</u>     | <u>2,452,255</u>     | <u>2,021,244</u>     |
| Representation                 |            | <u>4,248,636</u>     | <u>4,096,148</u>     | <u>3,981,491</u>     |
| Professional fees              |            | <u>2,341,797</u>     | <u>2,336,150</u>     | <u>2,776,575</u>     |
| Rentals                        | 17.5, 20.1 | <u>1,653,757</u>     | <u>1,375,607</u>     | <u>1,069,365</u>     |
| Insurance                      |            | <u>1,180,655</u>     | <u>1,243,002</u>     | <u>1,292,983</u>     |
| Miscellaneous                  |            | <u>10,029,249</u>    | <u>9,325,015</u>     | <u>9,592,574</u>     |
|                                |            | <u>P921,966,309</u>  | <u>P755,389,611</u>  | <u>P732,388,125</u>  |

These expenses are classified in the statements of profit or loss as follows:

|                          | Note | 2015                 | 2014                 | 2013                 |
|--------------------------|------|----------------------|----------------------|----------------------|
| Cost of goods sold       | 13   | P 795,231,133        | P 639,430,922        | P 628,526,560        |
| Other operating expenses |      | <u>126,735,176</u>   | <u>115,958,689</u>   | <u>103,861,565</u>   |
|                          |      | <u>P 921,966,309</u> | <u>P 755,389,611</u> | <u>P 732,388,125</u> |

## 15. EMPLOYEE BENEFITS

### 15.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

|                                 | Note | 2015                | 2014                | 2013                |
|---------------------------------|------|---------------------|---------------------|---------------------|
| Short-term employee benefits    |      | P 58,766,504        | P 52,016,420        | P 56,998,912        |
| Post-employment defined benefit | 15.2 | <u>2,848,430</u>    | <u>1,444,936</u>    | <u>2,235,343</u>    |
|                                 |      | <u>P 61,614,934</u> | <u>P 53,461,356</u> | <u>P 59,234,255</u> |

Salaries and employee benefits are allocated in the statements of profit or loss as follows:

|                          | Notes | 2015                | 2014                | 2013                |
|--------------------------|-------|---------------------|---------------------|---------------------|
| Cost of goods sold       | 13    | P 16,047,006        | P 11,409,366        | P 14,063,828        |
| Other operating expenses |       | <u>45,567,928</u>   | <u>42,051,990</u>   | <u>45,170,427</u>   |
|                          | 14    | <u>P 61,614,934</u> | <u>P 53,461,356</u> | <u>P 59,234,255</u> |

### 15.2 Post-employment Defined Benefit Plan

#### (a) 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 7641, *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.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented in the succeeding page are based on the actuarial valuation report obtained from an independent actuary in 2015 and 2014.

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

|                                 | <u>2015</u>        | <u>2014</u>        |
|---------------------------------|--------------------|--------------------|
| Present value of the obligation | P 31,146,773       | P 24,710,567       |
| Fair value of plan assets       | ( 24,869,277)      | ( 20,737,103)      |
|                                 | <u>P 6,277,496</u> | <u>P 3,973,464</u> |

The movements in the present value of the post-employment defined benefit obligation recognized in the books are as follows:

|   | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|
| Balance at beginning of year                              | P 24,710,567        | P 21,649,741        |
| Current service cost                                      | 2,848,430           | 1,444,936           |
| Interest cost   | 1,257,768           | 852,459             |
| Benefits paid   | ( 927,692)          | ( 293,423)          |
| Remeasurement – actuarial losses<br>(gains) arising from: |                     |                     |
| Experience adjustments                                    | ( 514,038)          | 782,538             |
| Changes in financial assumptions                          | <u>3,771,738</u>    | <u>274,316</u>      |
| Balance at end of year                                    | <u>P 31,146,773</u> | <u>P 24,710,567</u> |

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

|   | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|
| Balance at beginning of year  | P 20,737,103        | P 16,805,765        |
| Contributions to the plan   | 3,838,765           | 3,838,765           |
| Interest income   | 1,129,605           | 655,950             |
| Benefits paid   | ( 927,692)          | ( 293,423)          |
| Return on plan assets (excluding<br>amounts included in net interest) | <u>91,496</u>       | <u>( 269,954)</u>   |
| Balance at end of year  | <u>P 24,869,277</u> | <u>P 20,737,103</u> |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

|   | <u>2015</u>         | <u>2014</u>         |
|---|---------------------|---------------------|
| Cash and cash equivalents               | P 2,728,160         | P 13,547,860        |
| Debt securities:                        |                     |                     |
| Philippine government bonds             | 17,871,062          | 3,852,821           |
| Corporate bonds (rated AA<br>and above) | <u>1,773,179</u>    | <u>1,500,572</u>    |
|   | <u>19,644,241</u>   | <u>5,353,393</u>    |
| Unit investment trust funds (UITF)      | 581,941             | 491,742             |
| Others                                  | <u>1,941,935</u>    | <u>1,345,108</u>    |
|   | <u>P 24,896,277</u> | <u>P 20,738,103</u> |



Others comprise of accrued interest and other receivables.

The fair values of the above UITF and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

Plan assets do not comprise any of the Company's own financial instruments.

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

|   | <u>2015</u>        | <u>2014</u>        | <u>2013</u>          |
|---|--------------------|--------------------|----------------------|
| <i>Recognized in profit or loss:</i>              |                    |                    |                      |
| Current service cost                              | P 2,848,430        | P 1,444,936        | P 1,945,229          |
| Net interest expense                              | 128,163            | 196,509            | 628,717              |
| Past service cost                                 | -                  | -                  | 290,114              |
|   | <u>P 2,976,593</u> | <u>P 1,641,445</u> | <u>P 2,864,060</u>   |
| <i>Recognized in other comprehensive income –</i> |                    |                    |                      |
| Actuarial losses (gains) arising from:            |                    |                    |                      |
| Experience adjustments                            | (P 514,038)        | P 782,538          | (P 4,814,363)        |
| Changes in financial assumptions                  | 3,771,738          | 274,316            | 480,399              |
| Return on plan assets                             | ( 91,496)          | 269,954            | ( 426,037)           |
|   | <u>P 3,166,204</u> | <u>P 1,326,808</u> | <u>(P 4,760,001)</u> |

Current service and past service costs are included as part of Salaries and employee benefits under Cost of Goods Sold and Other Operating Expenses account in the statements of profit or loss (see Notes 13 and 14).

The net interest expense is included as part of Finance Costs account in the statements of profit or loss.

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

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

|                      | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|----------------------|-------------|-------------|-------------|
| Discount rate        | 4.63%       | 5.09%       | 5.25%       |
| Salary increase rate | 6.41%       | 5.00%       | 5.00%       |

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27.8 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond, with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Company to actuarial risks such as 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 bonds 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 if the return on plan asset 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.

(d) *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.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2015 and 2014:

|                                 | Impact on Post-Employment Defined<br>Benefit Obligation |                                   |                                   |
|---------------------------------|---|-----------------------------------|-----------------------------------|
|                                 | <u>Change in<br/>Assumption</u>                         | <u>Increase in<br/>Assumption</u> | <u>Decrease in<br/>Assumption</u> |
| <b><u>December 31, 2015</u></b> |   |                                   |                                   |
| Discount rate                   | +/- 1.0%  | (P 2,358,528)                     | P 2,966,209                       |
| Salary growth rate              | +/- 1.0%  | 2,640,298                         | ( 2,145,142)                      |
| <b><u>December 31, 2014</u></b> |   |                                   |                                   |
| Discount rate                   | +/- 1.0%  | (P 1,579,886)                     | P 1,935,502                       |
| Salary growth rate              | +/- 1.0%  | 1,706,078                         | ( 1,411,714)                      |
| <b><u>December 31, 2013</u></b> |   |                                   |                                   |
| Discount rate                   | +/- 1.0%  | (P 1,550,529)                     | P 1,884,270                       |
| Salary growth rate              | +/- 1.0%  | 1,680,326                         | ( 1,405,816)                      |

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 December 31, 2015 and 2014 consists of debt securities and readily available cash and cash equivalents, pending placement in investments with balanced risks and rewards optimization.

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 has yet to decide the amount of contribution to the retirement plan for the succeeding year.

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.

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

|                                   | <u>2015</u>         |   | <u>2014</u>       |
|-----------------------------------|---------------------|---|-------------------|
| Within one year                   | P 14,870,276        | P | 7,309,955         |
| More than one year to five years  | 7,740,430           |   | 11,010,650        |
| More than five years to ten years | <u>2,860,191</u>    |   | <u>5,370,081</u>  |
|                                   | <u>P 25,470,897</u> | P | <u>23,690,686</u> |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 12.20 years.

16. **CURRENT AND DEFERRED TAXES**

The components of tax expense as reported in profit or loss and other comprehensive income follow:

|   | <u>2015</u>         | <u>2014</u>         | <u>2013</u>         |
|---|---------------------|---------------------|---------------------|
| <i>Reported in profit or loss:</i>  |                     |                     |                     |
| Current tax expense:  |                     |                     |                     |
| Regular corporate income tax (RCIT) at 30%  | P 44,898,463        | P 28,476,310        | P 20,760,471        |
| Final tax at 20% and 7.5%   | <u>19,965</u>       | <u>72,370</u>       | <u>241,288</u>      |
|   | 44,918,428          | 28,548,680          | 21,001,759          |
| Deferred tax expense (income) relating to origination and reversal of temporary differences                               |                     |                     |                     |
|   | <u>1,286,628</u>    | ( <u>207,028</u> )  | <u>322,943</u>      |
|   | <u>P 46,205,056</u> | <u>P 28,341,652</u> | <u>P 21,324,702</u> |
| <i>Reported in other comprehensive income –</i>   |                     |                     |                     |
| Deferred tax expense relating to revaluation increment on land and remeasurements of post-employment defined benefit plan |                     |                     |                     |
|   | <u>P 666,839</u>    | <u>P 1,068,958</u>  | <u>P 1,428,000</u>  |

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

|  | <u>2015</u>         | <u>2014</u>         | <u>2013</u>         |
|--|---------------------|---------------------|---------------------|
| Tax on pretax profit at 30%                        | P 43,905,610        | P 28,116,593        | P 21,321,794        |
| Adjustment for income subjected to lower tax rates | ( 23,690 )          | ( 52,912 )          | ( 140,636 )         |
| Tax effects of non-deductible expenses             | <u>2,323,136</u>    | <u>277,971</u>      | <u>143,544</u>      |
| Tax expense reported in profit or loss             | <u>P 46,205,056</u> | <u>P 28,341,652</u> | <u>P 21,324,702</u> |

The net deferred tax liabilities relate to the following as of December 31:

|  | <u>Statements of Financial Position</u> |                       |
|--|---|-----------------------|
|  | <u>2015</u>                             | <u>2014</u>           |
| Deferred tax assets:                                 |   |                       |
| Post-employment defined benefit obligation           | P 1,883,249                             | P 1,192,039           |
| Impairment loss on trade and other receivables       | 2,259,718                               | 2,326,019             |
| Unamortized past service cost                        | 2,477,601                               | 2,525,460             |
| Unrealized foreign currency losses – net             | <u>-</u>                                | <u>164,697</u>        |
|  | <u>6,620,568</u>                        | <u>6,208,215</u>      |
| Deferred tax liabilities:                            |   |                       |
| Revaluation reserve on property, plant and equipment | ( 15,218,162 )                          | ( 13,601,462 )        |
| Unrealized foreign currency gains – net              | <u>( 749,119 )</u>                      | <u>-</u>              |
|  | <u>( 15,967,281 )</u>                   | <u>( 13,601,642 )</u> |
| Net Deferred Tax Liabilities                         | <u>(P 9,346,713)</u>                    | <u>(P 7,393,247)</u>  |

|  | Statements of Comprehensive Income |                    |                  |                            |                    |                    |
|--|------------------------------------|--------------------|------------------|----------------------------|--------------------|--------------------|
|  | Profit or Loss                     |                    |                  | Other Comprehensive Income |                    |                    |
|  | 2015                               | 2014               | 2013             | 2015                       | 2014               | 2013               |
| Deferred tax assets:                                 |                                    |                    |                  |                            |                    |                    |
| Post-employment defined benefit obligation           | P 258,652                          | P 659,196          | P 1,654,337      | (P 949,861)                | P 398,042          | P 1,428,000        |
| Impairment loss in trade and other receivables       | 66,301                             | ( 6,229)           | 55,800           | -                          | -                  | -                  |
| Unamortized past service cost                        | 47,859                             | ( 402,900)         | ( 1,507,431)     | -                          | -                  | -                  |
|  | <u>372,812</u>                     | <u>250,067</u>     | <u>202,706</u>   | <u>( 949,861)</u>          | <u>398,042</u>     | <u>1,428,000</u>   |
| Deferred tax liabilities:                            |                                    |                    |                  |                            |                    |                    |
| Revaluation reserve on property, plant and equipment | -                                  | -                  | -                | 1,616,700                  | 1,467,000          | -                  |
| Unrealized foreign currency gains (losses) – net     | 913,816                            | ( 457,095)         | 120,237          | -                          | -                  | -                  |
| Deferred Tax Expense (Income)                        | <u>P 1,286,628</u>                 | <u>(P 207,028)</u> | <u>P 322,943</u> | <u>P 666,839</u>           | <u>P 1,068,958</u> | <u>P 1,428,000</u> |

The Company is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was accrued for the years ended December 31, 2015, 2014 and 2013 as the RCIT was higher than MCIT in those years.

In 2015, 2014 and 2013, the Company claimed itemized deductions in computing for its income tax due.

## 17. RELATED PARTY TRANSACTIONS

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

The summary of the Company's transactions with its related parties for the years ended December 31, 2015, 2014 and 2013 and the outstanding balances as of December 31, 2015 and 2014 are as follows:

|  | Notes | Amounts of Transactions |              |              |
|--|-------|-------------------------|--------------|--------------|
|  |       | 2015                    | 2014         | 2013         |
| <b>Related Parties Under Common Ownership:</b> |       |                         |              |              |
| Sale of goods                                  | 17.1  | P 31,630,201            | P 22,597,352 | P 28,673,341 |
| Purchase of goods and services                 | 17.2  | 38,677,734              | 33,029,044   | 30,012,196   |
| Advances granted                               | 17.3  | 6,000,000               | 6,000,000    | 5,858,472    |
| Rent expense                                   | 17.5  | 1,359,595               | 654,200      | 685,580      |
| Security deposit                               | 17.5  | 30,100                  | 47,315       | -            |
| Sale of property, plant and equipment          | 8     | -                       | 2,884,707    | -            |
| Other receivables                              | 17.6  | -                       | 176,910      | -            |
| <b>Stockholders –</b>                          |       |                         |              |              |
| Loan guarantee                                 | 17.8  | -                       | 68,800,000   | -            |
| <b>Key Management Personnel –</b>              |       |                         |              |              |
| Compensation                                   | 17.7  | 27,814,738              | 24,348,833   | 23,257,487   |

|  | Note | Outstanding Balances |             |
|--|------|----------------------|-------------|
|  |      | 2015                 | 2014        |
| <b>Related Parties Under Common Ownership:</b> |      |                      |             |
| Sale of goods                                  | 17.1 | P 9,138,498          | P 8,309,511 |
| Purchase of goods and services                 | 17.2 | 3,358,816            | 4,284,191   |
| Advances granted                               | 17.3 | 30,800,000           | 24,800,000  |
| Security deposit                               | 17.5 | 207,915              | 177,815     |
| Other receivables                              | 17.6 | 35,382               | 176,910     |
| <b>Stockholders:</b>                           |      |                      |             |
| Loan guarantee                                 | 17.8 | -                    | 68,800,000  |
| Advances obtained                              | 17.4 | 46,057               | 46,057      |

None of the Company's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

### ***17.1 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 the Trade and Other Receivables account in the statements of financial position (see Note 6).

### ***17.2 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 2015 and 2014 are presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 11). The outstanding payables from purchase of goods and services are generally noninterest-bearing, unsecured and settled through cash within three months.

The Company also 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 paid 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.

### ***17.3 Advances to Related Parties***

The Company grants unsecured, noninterest-bearing advances to its related parties under common ownership. Included in this account are advances made for the purpose of a future land acquisition. These advances are noninterest-bearing, unsecured and repayable in cash, and are presented as Advances to related parties under Trade and Other Receivables account in the statements of financial position (see Note 6).

#### ***17.4 Advances from Stockholders***

The Company obtains unsecured and noninterest-bearing advances from certain stockholders for working capital requirements. In 2012, the Company reclassified portion of these Advances from Stockholders amounting to P342.8 million to Amount for Future Stock Subscription (see Note 18.1) in connection with the Company's debt to equity conversion which was executed and approved by the SEC in 2013.

#### ***17.5 Lease of Properties***

The Company entered into operating lease agreements with a related party under common ownership covering its office spaces with lease terms of two and ten years. Rental expense related to this transaction is shown as part of Rentals under Other Operating Expenses account in the statements of profit or loss (see Note 14). There are no unpaid rentals as of December 31, 2015 and 2014.

The related deposit as of December 31, 2015 and 2014, which is refundable at the termination of the lease term, is presented as part of Security Deposits under Other Non-current Assets account in the statements of financial position (see Note 10).

#### ***17.6 Other Receivables***

Other receivables represent unsecured, noninterest-bearing advances for miscellaneous business-related expenditures that are presented as part of Other receivables under Trade and Other Receivables account in the statements of financial position (see Note 6).

#### ***17.7 Key Management Personnel Compensation***

The total compensation of key management personnel, which include all managers and executives, is shown below.

|                                  | <u>2015</u>         | <u>2014</u>         | <u>2013</u>         |
|----------------------------------|---------------------|---------------------|---------------------|
| Short-term benefits              | P 25,700,843        | P 23,720,015        | P 22,493,721        |
| Post-employment defined benefits | <u>2,113,895</u>    | <u>628,818</u>      | <u>763,766</u>      |
|                                  | <u>P 27,814,738</u> | <u>P 24,348,833</u> | <u>P 23,257,487</u> |

#### ***17.8 Loan Guarantee***

In 2014, the stockholders guaranteed the Company's loan from a local bank amounting to P68.8 million (see Note 12).

18. EQUITY

**18.1 Capital Stock**

Capital stock consists of:

|                              | Shares               |                      | Amount                 |                        |
|------------------------------|----------------------|----------------------|------------------------|------------------------|
|                              | 2015                 | 2014                 | 2015                   | 2014                   |
| Common shares – P1 par value |                      |                      |                        |                        |
| Authorized                   | <u>1,300,000,000</u> | <u>1,300,000,000</u> | <u>P 1,300,000,000</u> | <u>P 1,300,000,000</u> |
| Issued and outstanding:      |                      |                      |                        |                        |
| Balance at beginning of year | 472,800,000          | 352,800,000          | 472,800,000            | 352,800,000            |
| Stock dividends              | -                    | 120,000,000          | -                      | 120,000,000            |
| Issued during the year       | <u>158,000,000</u>   | <u>-</u>             | <u>158,000,000</u>     | <u>-</u>               |
| Balance at end of year       | <u>630,800,000</u>   | <u>472,800,000</u>   | <u>P 630,800,000</u>   | <u>P 472,800,000</u>   |

On October 17, 2012, the BOD approved the increase in the Company's authorized capital stock from P10.0 million divided into 100,000 common shares with par value of P100 per share to P1,300.0 million divided into 1,300.0 million common shares with the par value of P1 per share. The payment for the subscription of the increase in authorized capital stock was made by way of conversion of the Company's Amount for Future Stock Subscription to Equity (see Note 17.4). The application for increase in authorized capital stock and conversion of the Amount for Future Stock Subscription to equity was approved by the SEC on January 25, 2013. In 2013, the balance of Amount for Future Stock Subscription was transferred to Capital Stock account upon issuance of the shares of stocks.

On April 27, 2015, the Company was listed with the PSE with 158,000,000 new additional common shares with offer price of P1.41 per share and 472,800,000 existing common shares with par value of P1.00 per share. The listing was approved by the SEC on April 7, 2015. As of December 31, 2015, the Company's number of shares registered totaled 630,800,000 with par value of P1.00 per share and closed at a price of P2.35. The total number of stockholders is 19 as of December 31, 2015.

**18.2 Additional Paid-in Capital**

Additional paid-in capital consists of P52.3 million from the initial public offering in 2015, net of P12.5 million stock issuance costs incurred such as underwriting fees and commissions, taxes and filing fees.

**18.3 Retained Earnings**

On January 16, 2015, the Company's BOD approved the declaration of cash dividend amounting to P25.0 million or P0.05 per share to stockholders of record as of January 16, 2015, on which P12.5 million was paid on January 30, 2015, while the remaining P12.5 million was paid on February 25, 2015.

On September 5, 2014, the Company's BOD and stockholders approved the declaration of stock dividends equivalent to 34.01% of the total issued and outstanding shares of stock amounting to P120.0 million (P1.0 par value). The stock dividends were distributed on November 6, 2014.



On May 27, 2014, the Company's BOD approved the release of the appropriation originally intended for construction of the Company's new factory building and for purchase of machineries for new product lines amounting to P40.0 million.

On March 4, 2014, the Company's BOD approved the declaration of cash dividend amounting to P7.0 million or P0.02 per share which was paid on May 30, 2014 to stockholders of record as of March 31, 2014. Similarly, on May 16, 2013, the Company's BOD approved the declaration of cash dividend amounting to P7.0 million or P0.02 per share payable on May 31, 2013 to stockholders of record as of May 16, 2013. On December 9, 2013, the Company declared another cash dividend amounting to P5.0 million or P.01 per share payable on December 19, 2013 to stockholders of record as of November 30, 2013.

## 19. EARNINGS PER SHARE

Basic EPS is computed as follows:

|   | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|---|--------------------|--------------------|--------------------|
| Net profit  | P 100,146,977      | P 65,380,323       | P 49,747,945       |
| Divided by weighted average number of<br>outstanding common shares* | <u>578,133,333</u> | <u>472,800,000</u> | <u>453,755,556</u> |
| Basic and diluted earnings per share                                | <u>P 0.17</u>      | <u>P 0.14</u>      | <u>P 0.11</u>      |

\* After giving retroactive effect to the stock dividends declared (see Note 18.3).

The Company does not have dilutive potential common shares outstanding as of December 31, 2015, 2014 and 2013; hence, diluted EPS is equal to the basic EPS.

## 20. COMMITMENTS AND CONTINGENCIES

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

### 20.1 Operating Lease Commitments – Company as Lessee

The Company is a lessee under non-cancellable operating leases covering its warehouse and office spaces. The lease for warehouse has a term of two years and includes annual escalation rate of 5.00%, while the leases for office space have terms of five to ten years with escalation rates ranging from 5.00% to 10.00%. All leases have renewal options. The following is the future minimum lease payments under these non-cancellable operating leases as of December 31:

|  | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|--|--------------------|--------------------|--------------------|
| Within one year                                | P 1,640,092        | P 999,732          | P 898,554          |
| After one year but not<br>more than five years | <u>2,557,860</u>   | <u>1,736,831</u>   | <u>2,736,563</u>   |
|  | <u>P 4,197,952</u> | <u>P 2,736,563</u> | <u>P 3,635,117</u> |

Rental expense for the years ended December 31, 2015, 2014 and 2013 amounted to P1.7 million, P1.4 million and P1.0 million, respectively (see Note 14).

### **20.2 Unused Credit Lines**

The Company had P320.0 million and P161.2 million of unused credit lines of the approved Omnibus Line of Credit from a local bank granted as of December 31, 2015 and 2014, respectively.

### **20.3 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 December 31, 2015, 2014 and 2013, 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.

## **21. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's financial assets and financial liabilities by category are summarized in Note 22. 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.

### **21.1 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 US dollars. The Company also holds US dollar-denominated cash and cash equivalents.

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

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate follow:

|                       | <u>2015</u>         | <u>2014</u>         |
|-----------------------|---------------------|---------------------|
| Financial assets      | P 87,755,501        | P 42,455,324        |
| Financial liabilities | ( 21,799,628)       | ( 4,432,451)        |
| Net exposure          | <u>P 65,956,379</u> | <u>P 38,022,873</u> |

The sensitivity of the Company's profit before tax is based on the Company's financial assets and financial liabilities denominated in U.S. dollars and the U.S. dollar – Philippine peso exchange rate. It assumes a +/- 10.42% and +/- 11.56% change of the Philippine peso/ U.S. dollar exchange rate for the years ended December 31, 2015 and 2014, respectively. These percentages have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level. The sensitivity analysis is based on the Company's foreign currency financial instruments held at the end of each reporting period.

If the Philippine peso had strengthened against the U.S. dollar by 10.42% and 11.56% at December 31, 2015 and 2014, profit before tax for the years ended December 31, 2015 and 2014 would have decreased further by P6.9 million and P4.4 million, respectively. Conversely, if the Philippine peso has weakened against the U.S. dollar by the same percentages at December 31, 2015 and 2014, profit before tax for the years ended December 31, 2015 and 2014 would have increased by the same amounts.

Exposures to foreign exchange rates vary during the period depending on the volume of foreign currency denominated transactions. Nonetheless, the analysis above is considered to be representative of the Company's currency risk.

*(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 December 31, 2015 and 2014, the Company is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and liabilities have fixed rates. The table below illustrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates of +/- 0.69% and +/- 1.24% in 2015 and 2014, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to changes in interest rates. All other variables are held constant.

|                             | <u>Increase</u> |              | <u>Decrease</u> |              |
|-----------------------------|-----------------|--------------|-----------------|--------------|
|                             | <u>2015</u>     | <u>2014</u>  | <u>2015</u>     | <u>2014</u>  |
|                             | <u>0.69%</u>    | <u>1.24%</u> | <u>0.69%</u>    | <u>1.24%</u> |
| Effect in profit before tax | P 815,929       | P 11,983     | (P 815,929)     | (P 11,983)   |
| Effect in equity            | 652,743         | 9,586        | ( 652,743)      | ( 9,586)     |

### 21.2 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.

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

|  | <u>Notes</u> | <u>2015</u>          | <u>2014</u>          |
|--|--------------|----------------------|----------------------|
| Cash and cash equivalents  | 5            | P 118,822,778        | P 34,317,966         |
| Trade and other receivables - net<br>(except Advances to<br>suppliers and contractors) | 6            | 228,936,267          | 186,326,390          |
| Security deposits  | 10           | <u>5,112,280</u>     | <u>3,042,695</u>     |
|  |              | <u>P 352,871,325</u> | <u>P 223,687,051</u> |

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 (see Note 6). Bank deposits are only maintained with reputable financial institutions, as a matter of Company policy. Cash in banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500 thousand per depositor per banking institution.

The credit risk with respect to trade and other receivable is not concentrated to any single counterparty as these are due from various customers located in a widely dispersed geographical area but generally within the Philippines.

Management assessed that the past due trade and other receivables over 120 days but less than one year amounting to P1.5 million and P0.7 million as of December 31, 2015 and 2014, respectively, are not impaired as of those dates.

### 21.3 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 (see Note 20.2).

As at December 31, the Company's financial liabilities have contractual maturities which are presented below.

|  | 2015                 |                     |                      |
|--|----------------------|---------------------|----------------------|
|  | Current              |                     | Non-current          |
|  | Within<br>Six Months | Six to 12<br>Months | One to Five<br>Years |
| Trade and other payables<br>(except Advances from customers<br>and tax-related payables) | P 117,217,318        | P 950,860           | P 1,833,159          |
| Advances from stockholders   | -                    | -                   | 46,057               |
|  | <u>P 117,217,318</u> | <u>P 950,860</u>    | <u>P 1,879,216</u>   |

This compares to the maturity of the Company's financial liabilities as of December 31 as follows:

|  | 2014                 |                     |                      |
|--|----------------------|---------------------|----------------------|
|  | Current              |                     | Non-current          |
|  | Within<br>Six Months | Six to 12<br>Months | One to Five<br>Years |
| Trade and other payables<br>(except Advances from customers<br>and tax-related payables) | P 165,302,834        | P 1,297,230         | P 3,891,085          |
| Interest-bearing loans   | 69,366,906           | -                   | -                    |
| Advances from stockholders   | -                    | -                   | 46,057               |
|  | <u>P 234,669,740</u> | <u>P 1,297,230</u>  | <u>P 3,937,142</u>   |

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

## 22. CATEGORIES AND OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 22.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position at amortized cost are shown below (see Note 23.2).

|  | Notes | 2015                 |                      | 2014                 |                      |
|--|-------|----------------------|----------------------|----------------------|----------------------|
|  |       | Carrying Values      | Fair Values          | Carrying Values      | Fair Values          |
| <b>Financial assets –</b>  |       |                      |                      |                      |                      |
| <b>Loans and receivables</b>   |       |                      |                      |                      |                      |
| Cash and cash equivalents  | 5     | P 118,822,778        | P 118,822,778        | P 34,317,966         | P 34,317,966         |
| Trade and other receivables (except<br>Advances to suppliers<br>and contractors)         | 6     | 228,936,267          | 228,936,267          | 186,326,390          | 186,326,390          |
| Security deposits  | 10    | <u>5,112,280</u>     | <u>5,112,280</u>     | <u>3,042,695</u>     | <u>3,042,695</u>     |
|  |       | <u>P 352,871,325</u> | <u>P 352,871,325</u> | <u>P 223,687,051</u> | <u>P 223,687,051</u> |
| <b>Financial liabilities –</b>   |       |                      |                      |                      |                      |
| <b>At amortized cost</b>   |       |                      |                      |                      |                      |
| Trade and other payables (except<br>Advances from customers<br>and tax-related payables) | 11    | P 119,683,743        | P 119,683,743        | P 169,168,086        | P 169,168,086        |
| Interest-bearing loans   | 12    | -                    | -                    | 68,800,000           | 68,800,000           |
| Advances from stockholders   | 17.4  | <u>46,057</u>        | <u>46,057</u>        | <u>46,057</u>        | <u>46,057</u>        |
|  |       | <u>P 119,729,800</u> | <u>P 119,729,800</u> | <u>P 238,014,143</u> | <u>P 238,014,143</u> |

See Notes 2.4 and 2.9 for a description of the accounting policies for each category of financial instruments. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 21.

### 22.2 Offsetting Financial Assets and Financial Liabilities

The Company's interest-bearing loans presented in the 2014 statement of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements as of December 31, 2014:

| Note                   | Gross Amounts | Related Amount<br>Not Set-off<br>(Cash in Bank) | Net Amount   |
|------------------------|---------------|---|--------------|
| Interest-bearing loans | 11            | P 68,800,000 (P 26,308,381)                     | P 42,491,619 |

As of December 31, 2015, the Company has no outstanding interest-bearing loans.

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 including subsidiaries and associates) allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis (see Note 21). 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.

## 23. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### *23.1 Fair Value Hierarchy*

In accordance with PFRS 13, 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.

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

The table below summarizes the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (see Note 22.1).

|                               | <u>Level 1</u>             | <u>Level 2</u>    | <u>Level 3</u>              | <u>Total</u>                |
|-------------------------------|----------------------------|-------------------|-----------------------------|-----------------------------|
| <b>December 31, 2015</b>      |                            |                   |                             |                             |
| <i>Financial assets:</i>      |                            |                   |                             |                             |
| Cash and cash equivalents     | P118,822,778               | P -               | P -                         | P 118,822,778               |
| Trade and other receivables   | -                          | -                 | 228,936,267                 | 228,936,267                 |
| Security deposits             | -                          | -                 | 5,112,280                   | 5,112,280                   |
|                               | <b><u>P118,822,778</u></b> | <b><u>P -</u></b> | <b><u>P234,048,547</u></b>  | <b><u>P 352,871,325</u></b> |
| <i>Financial liabilities:</i> |                            |                   |                             |                             |
| Trade and other payables      | P -                        | P -               | P 119,683,743               | P 119,683,743               |
| Advances from stockholders    | -                          | -                 | 46,057                      | 46,057                      |
|                               | <b><u>P -</u></b>          | <b><u>P -</u></b> | <b><u>P 119,729,800</u></b> | <b><u>P 119,729,800</u></b> |
| <b>December 31, 2014</b>      |                            |                   |                             |                             |
| <i>Financial assets:</i>      |                            |                   |                             |                             |
| Cash and cash equivalents     | P 34,317,966               | P -               | P -                         | P 34,317,966                |
| Trade and other receivables   | -                          | -                 | 186,326,390                 | 186,326,390                 |
| Security deposits             | -                          | -                 | 3,042,695                   | 3,042,695                   |
|                               | <b><u>P 34,317,966</u></b> | <b><u>P -</u></b> | <b><u>P189,369,085</u></b>  | <b><u>P 223,687,051</u></b> |
| <i>Financial liabilities:</i> |                            |                   |                             |                             |
| Trade and other payables      | P -                        | P -               | P 169,168,086               | P 169,168,086               |
| Interest-bearing loans        | -                          | -                 | 68,800,000                  | 68,800,000                  |
| Advances from stockholders    | -                          | -                 | 46,057                      | 46,057                      |
|                               | <b><u>P -</u></b>          | <b><u>P -</u></b> | <b><u>P 238,014,143</u></b> | <b><u>P 238,014,143</u></b> |

**23.3 Fair Value Measurement for Non-financial Assets**

The fair value of the Company's land amounting to P83.6 million as of December 31, 2015 and P78.2 million as of December 31, 2014 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 2015 and 2014.



**24. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

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

The Company monitors capital on the basis of the carrying amount of equity as presented in the statements of financial position. Capital for the reporting periods under review is summarized as follows:

|                      | <u>2015</u>        | <u>2014</u>        | <u>2013</u>        |
|----------------------|--------------------|--------------------|--------------------|
| Total liabilities    | P 150,111,755      | P 266,148,679      | P 155,609,648      |
| Total equity         | <u>849,911,577</u> | <u>562,889,419</u> | <u>502,024,862</u> |
| Debt-to-equity ratio | <u>0.18 : 1.00</u> | <u>0.47 : 1.00</u> | <u>0.31 : 1.00</u> |

There were no internally and externally imposed capital requirements to be complied with as of December 31, 2015 and 2014.

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

**25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR**

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

**25.1 Requirements Under Revenue Regulations (RR) 15-2010**

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) *Output VAT*

In 2015, the Company declared output VAT as follows:

|                  | <u>Tax Base</u>       | <u>Output VAT</u>   |
|------------------|-----------------------|---------------------|
| Sale of goods:   |                       |                     |
| Taxable sales    | P 705,037,865         | P 84,604,544        |
| Zero-rated sales | <u>367,806,368</u>    | <u>-</u>            |
|                  | <u>P1,072,844,233</u> | <u>P 84,604,544</u> |

The Company's zero-rated receipts from sale of goods were determined pursuant to Section 106 (A), *VAT on Sale of Goods or Properties*, of the National Internal Revenue Code of 1997.

(b) *Input VAT*

The movements in input VAT in 2015 are presented below.

|   |   |                     |
|---|---|---------------------|
| Balance at beginning of year              | P | 43,256,679          |
| Goods other than capital goods            |   | 53,283,214          |
| VAT on importation of goods               |   | 30,449,394          |
| Services lodged under other accounts      |   | 12,610,375          |
| Capital goods subject to amortization     |   | 2,442,780           |
| Capital goods not subject to amortization |   | 206,523             |
| Applied against output VAT*               | ( | <u>84,604,544</u> ) |
| Balance at end of year                    | P | <u>57,644,421</u>   |

\* Includes balance applied against output VAT for the fourth quarter of 2015.

The outstanding balance of input VAT is presented under the Prepayment and Other Current Assets account in the 2015 statement of financial position (see Note 8).

Deferred input VAT amounting to P8,136,393 pertains to the unamortized input VAT on purchases of capital goods exceeding P1.0 million. Deferred input VAT is to be amortized and credited against output tax evenly over 60 months or the life of the asset, whichever is shorter. The outstanding balance is presented as part of Other Non-current Assets in the 2015 statement of financial position (see Note 10).

(c) *Taxes on Importation*

In 2015, the total landed cost of the Company's importations for use in business amounted to P289,770,695. This also includes customs duties and tariff fees totaling to P6,361,792 which are capitalized as part of the cost of the raw materials inventory and machineries, factory and other equipment.

(d) *Excise Tax*

The Company did not have any transactions in 2015 which are subject to excise tax.

(e) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2015 is presented below.

|                   |   |                  |
|-------------------|---|------------------|
| Bank transactions | P | 842,882          |
| Loan instruments  |   | 294,002          |
| Others            |   | <u>138,629</u>   |
|                   | P | <u>1,275,513</u> |

(f) *Taxes and Licenses*

The composition of Taxes and Licenses account in 2015 is shown below.

|                               | <u>Note</u> |   |                  |
|-------------------------------|-------------|---|------------------|
| Registration and license fees |             | P | 3,355,720        |
| DST                           | 25.1(e)     |   | 1,275,513        |
| Real property tax             |             |   | 1,170,096        |
| Deficiency tax                |             |   | 237,735          |
| Residence tax                 |             |   | 13,831           |
| Miscellaneous                 |             |   | <u>3,420</u>     |
|                               |             | P | <u>6,056,315</u> |

The amount of Taxes and licences is presented as part of Other Operating Expenses account in the 2015 statement of profit or loss (see Note 14).

(g) *Withholding Taxes*

The details of total withholding taxes in 2015 are shown below.

|                           |   |                   |
|---------------------------|---|-------------------|
| Expanded                  | P | 7,965,374         |
| Compensation and benefits |   | 7,740,222         |
| Final tax on dividends    |   | <u>2,500,000</u>  |
|                           | P | <u>18,205,596</u> |

(h) *Deficiency Tax Assessments*

In 2015, the Company was assessed for deficiency taxes on VAT, inclusive of the interest portion, totalling P295,492 for taxable year 2013. The tax assessment was fully settled in 2015.

As of December 31, 2015, the Company does not have any other final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

**25.2 Requirements Under RR 19-2011**

RR 19-2011 requires schedules of taxable revenues and other non-operating income, cost of goods sold, and itemized deductions and other significant tax information to be disclosed in the notes to the financial statements.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR, hence, may not be the same as the amounts reflected in the 2015 statement of profit or loss.

(a) *Taxable Revenues*

The Company's taxable revenues from sale of goods for the year ended December 31, 2015 subject to regular tax rate amounted to P1,072,844,233.

(b) *Deductible Cost of Goods Sold*

Deductible cost of goods sold subject to the regular tax rate for the year ended December 31, 2015 comprises the following:

|                                     |                       |
|-------------------------------------|-----------------------|
| Finished goods at beginning of year | P 153,794,162         |
| Cost of goods manufactured          | <u>812,650,611</u>    |
| Total goods available for sale      | 966,444,773           |
| Finished goods at end of year       | <u>( 171,213,640)</u> |
|                                     | <u>P 795,231,133</u>  |

(c) *Taxable Non-operating and Other Income*

The details of taxable non-operating and other income in 2015 which are subject to regular tax rate are shown below.

|                                       |                    |
|---------------------------------------|--------------------|
| Realized foreign currency gains – net | P 2,670,893        |
| Others                                | <u>17,374</u>      |
|                                       | <u>P 2,688,267</u> |

(d) *Itemized Deductions*

The amounts of itemized deductions for the year ended December 31, 2015 are shown below.

|                                  |                      |
|----------------------------------|----------------------|
| Salaries and allowances          | P 42,719,498         |
| Outside services                 | 13,305,776           |
| Transportation and travel        | 12,360,126           |
| Advertising and promotions       | 10,251,775           |
| Depreciation and amortization    | 7,743,108            |
| Taxes and licenses               | 5,271,774            |
| Delivery expense                 | 5,267,755            |
| Representation and entertainment | 4,237,382            |
| Retirement benefit expense       | 3,998,294            |
| Communication, light and water   | 3,279,216            |
| Interest                         | 2,752,689            |
| Repairs and maintenance          | 2,573,004            |
| Professional fees                | 2,341,797            |
| Office supplies                  | 1,923,002            |
| Rentals                          | 1,653,757            |
| Insurance                        | 1,153,628            |
| Bad debts written-off            | 682,361              |
| Miscellaneous                    | <u>9,124,882</u>     |
|                                  | <u>P 130,639,824</u> |