



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

An instinct for growth™

## **Report of Independent Auditors**

---

**Punongbayan & Araullo**

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

T +63 2 988 2288

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

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Crown Asia Chemicals Corporation (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

#### ***Basis for Opinion***

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

---

**Certified Public Accountants**

Punongbayan & Araullo is the Philippine member firm of Grant Thornton International Ltd

Offices in Cavite, Cebu, Davao  
BOA/PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002-FR-5

---

**grantthornton.com.ph**

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

#### **(a) Revenue Recognition**

##### *Description of the Matter*

Revenue is one of the key performance measures used to assess business performance. There is a risk that the amount of revenue presented in the financial statements is higher than what has been actually generated by the Company. Revenue is recognized when the control over the goods has been transferred at a point in time to the customer, i.e., generally when the customer has acknowledged delivery of goods. Revenue from local and export sales is generated through direct sales to manufacturers and traders, contractors and developers, and wholesalers and retailers. As of and for the year ended December 31, 2018, total revenues and the related receivables amounted to P1,187.2 million and P205.9 million, respectively.

In our view, revenue recognition is significant to our audit because the amount is material and it involves voluminous transactions at any given period of time requiring proper observation of cut-off procedures and testing the validity of the transactions as these directly impact the Company's profitability.

The Company's disclosures about its revenues and the related receivables, and revenue recognition policies, including the adoption of PFRS 15, *Revenue from Contracts with Customers*, are included in Notes 4, 6 and 2, respectively.

##### *How the Matter was Addressed in the Audit*

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

- obtaining an understanding of the Company's different types of revenue streams by reviewing revenue contracts and revenue transaction processes;
- evaluating appropriateness of the Company's revenue recognition policy in accordance with PFRS 15;
- testing of design and operating effectiveness of internal controls related to the Company's sale and receipts processes, which include inquiry and observation, and sampling test of revenue transactions during the year;
- performing detailed analysis of revenue segments and related key ratios such as, but not limited to, current year's components of revenues (e.g., by customer and by division) as a percentage of total revenues, receivable turnover and average collection period;
- confirming receivables, on sample basis, using positive confirmations, reporting unresolved difference to appropriate client personnel and projecting errors to the population, to ascertain the testing precision achieved, which further validates the accuracy of revenue recognized by the Company;



- performing alternative procedures for non-responding customers, such as, examining evidence of subsequent receipts, and corresponding sales invoices and proof of deliveries;
- performing test of transactions, on a sample basis, for revenue transactions to ascertain the satisfaction of the performance obligations through delivery of the goods, including but not limited to, reviewing proof of deliveries and sales invoices as evidence that control is transferred to the customers; and,
- performing sales cut-off test, including, among others, examining sales transactions near period end, and analysing and reviewing sales returns, credit memos and other receivable adjustments subsequent to period end to determine whether revenues are appropriately recognized in the proper period.

***(b) Adoption of Expected Credit Loss Model and Recoverability of Receivables***

***Description of the Matter***

As of December 31, 2018, the Company's receivables, net of allowance for impairment losses, amounting to P205.9 million represent 24% and 16% of total current assets and total assets, respectively, as of the end of the reporting period. The determination of allowance for impairment of receivables is considered to be a matter of significance as it requires the application of critical management judgment and use of subjective estimates in determining when the receivables are impaired and how much impairment losses need to be recognized in accordance with the expected credit loss (ECL) model under PFRS 9, *Financial Instruments*. These judgment and estimates which are described in the Company's significant accounting policies, judgments and estimates in Notes 2, 3 and 20 to the financial statements, include the application of the ECL model based on the lifetime ECL assessment wherein the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a simplified approach through provision matrix. The key elements used in the calculation of the ECL include the probability of default, loss given default and exposure at default.

The Company's disclosures about its receivables and the reconciliation of allowance for impairment are included in Note 6 while the related disclosures on credit risk are presented in Note 20.

***How the Matter was Addressed in the Audit***

Our audit procedures to determine the appropriateness of ECL model adopted and the adequacy of the allowance for credit losses on those receivables included, among others, the following:

- obtaining an understanding of the Company's policy and procedures over granting of credits to customers and assessing impairment of receivables;
- evaluating appropriateness of ECL model adopted based on the requirements of PFRS 9 and the reasonableness of underlying assumptions, and the sufficiency, reliability and relevance of historical data and forward looking information used by Company's management;
- checking the mathematical accuracy of the provision matrix applicable to the ECL model, including the applicable aging of receivables and the related aging classification of selected customers' accounts;

- identifying any customers with financial difficulty and/or breach of arrangement resulting in default on payments through discussion with management, inspecting their payment history, and as applicable, performing an independent evaluation of their ability to pay as qualitative assessment for the ECL, in addition to quantitative assessment using provision matrix;
- verifying, on a sample basis, the reasonableness of the results of management's credit and impairment review for customers with long-outstanding accounts by inspecting corroborating information and underlying documents; and,
- evaluating appropriateness of the impairment adjustments made by the Company during 2018 and in the opening balance of its retained earnings as of January 1, 2018 in accordance with the requirements of PFRS 9.

**(c) Existence and Valuation of Inventories**

*Description of the Matter*

The total inventories of P457.7 million as of December 31, 2018 represents 35% of total assets of the Company. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Recognition of inventory cost, particularly related to finished goods, involves management judgment and estimates in appropriately allocating the manufacturing costs, including overhead, based on actual units produced. In addition, management uses estimates in assessing whether inventories are valued at the lower of cost and net realizable value. Moreover, the Company's inventories are considered voluminous and majority of these are kept in the Company's warehouses and some are held by others at outside locations. Relative to these, we determined that existence and valuation of inventories are a key audit matter of our audit.

The Company's disclosures about inventories and the related inventory valuation policies are included in Notes 7 and 2, respectively.

*How the Matter was Addressed in the Audit*

Our audit procedures to address the risk of material misstatement relating to inventory existence and valuation, which was considered to be a significant risk included, among others, the following:

On inventory existence:

- conducting physical inventory observation, including, among others, touring the facility before and after the inventory count observation to gain an understanding of the location and condition of inventories prior to the count and after the count is concluded; determining that all sample inventory items were counted and no items were counted twice; obtaining relevant cut-off information and copy of count control documents; observing sample inventory items to test count against inventory records; clearing exceptions, if any, with appropriate personnel; and, projecting errors to the population;
- confirming and observing inventories held by others at outside locations; and,
- performing detailed analysis of inventory-related ratios such as, but not limited to, inventory turnover, current year's components of inventories as a percentage of total inventories and current year's composition of the total product cost.





On inventory valuation:

- determining the method of inventory costing and evaluating appropriateness and consistency of application of the valuation of inventories at lower of cost and net realizable value;
- performing test on inventory costing of sampled inventory items by recomputing unit cost and comparing to unit cost per books, examining movements affecting the average unit cost, reporting unresolved difference, if any, to appropriate personnel and projecting errors to the population; and,
- determining whether inventory is stated at lower of cost and net realizable value by obtaining latest selling price, estimating cost to sell of sample inventory items and comparing the net selling price to the unit cost per books, reporting unresolved differences, if any, to appropriate personnel and projecting errors to the population.

***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditors' report.

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

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

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

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

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

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

***Auditors' Responsibilities for the Audit of the Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.





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

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

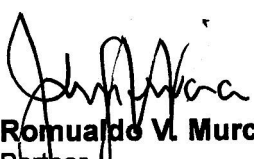
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation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

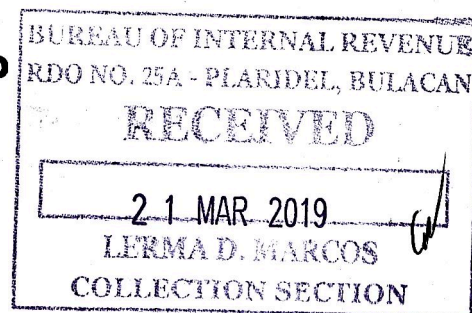
### **Report on Other Legal and Regulatory Requirements**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 24 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Romualdo V. Murcia III.

### **PUNONGBAYAN & ARAULLO**

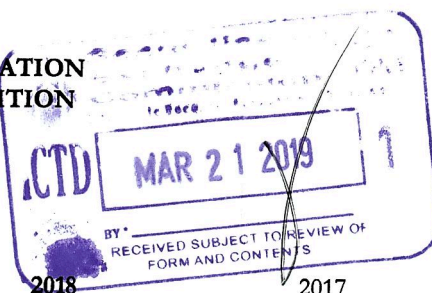
By:   
**Romualdo V. Murcia III**  
Partner



CPA Reg. No. 0095626  
TIN 906-174-059  
PTR No. 7333697, January 3, 2019, Makati City  
SEC Group A Accreditation  
Partner - No. 0628-AR-3 (until Nov. 29, 2019)  
Firm - No. 0002-FR-5 (until Mar. 26, 2021)  
BIR AN 08-002511-22-2016 (until Oct. 3, 2019)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 12, 2019

**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2018 AND 2017**  
*(Amounts in Philippine Pesos)*



	Notes	2018	2017
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	P 81,388,706	P 90,965,672
Trade and other receivables - net	6	205,920,278	234,740,679
Inventories	7	457,700,684	369,554,632
Prepayments and other current assets - net	8	105,985,838	88,407,110
Total Current Assets		850,995,506	783,668,093
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	9	415,398,427	397,105,968
Other non-current assets - net	10	47,989,729	21,746,842
Total Non-current Assets		463,388,156	418,852,810
<b>TOTAL ASSETS</b>		<b>P 1,314,383,662</b>	<b>P 1,202,520,903</b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	P 175,547,804	P 140,557,832
Loans and mortgage payables	11	29,895,312	1,752,436
Income tax payable		5,086,655	6,003,525
Total Current Liabilities		210,529,771	148,313,793
<b>NON-CURRENT LIABILITIES</b>			
Mortgage payables	11	3,619,713	2,480,709
Post-employment defined benefit obligation	14	6,125,785	9,267,876
Deferred tax liabilities - net	15	19,684,349	21,660,319
Advances from stockholders	16	46,057	46,057
Total Non-current Liabilities		29,475,904	33,454,961
Total Liabilities		240,005,675	181,768,754
<b>EQUITY</b>			
Capital stock	17	630,800,000	630,800,000
Additional paid-in capital		52,309,224	52,309,224
Revaluation reserves		62,954,276	61,137,840
Retained earnings		328,314,487	276,505,085
Total Equity		1,074,377,987	1,020,752,149
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 1,314,383,662</b>	<b>P 1,202,520,903</b>

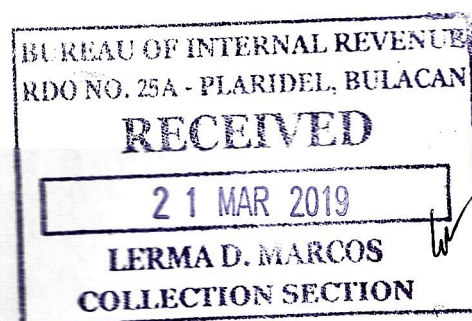
*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017	2016
<b>REVENUES</b>	2, 16	P 1,187,186,268	P 1,255,300,025	P 1,115,975,529
<b>COST OF GOODS SOLD</b>	12, 13	<u>854,656,351</u>	<u>907,324,330</u>	<u>817,572,331</u>
<b>GROSS PROFIT</b>		<u>332,529,917</u>	<u>347,975,695</u>	<u>298,403,198</u>
<b>OTHER OPERATING EXPENSES</b>	13	<u>167,057,413</u>	<u>179,264,767</u>	<u>138,162,559</u>
<b>OTHER INCOME (CHARGES)</b>				
Impairment loss on applied tax credit certificate	8	( 3,359,487 )	-	-
Foreign currency gains (losses) - net		<u>3,328,278</u>	( 98,061 )	4,125,918
Finance costs	11, 14, 24	( 1,190,248 )	( 1,084,992 )	( 1,684,501 )
Finance income	5	<u>522,880</u>	<u>394,276</u>	<u>1,469,700</u>
Other income	6, 9	<u>3,437,020</u>	<u>51,598</u>	<u>436,065</u>
		<u>2,738,443</u>	( <u>737,179</u> )	<u>4,347,182</u>
<b>PROFIT BEFORE TAX</b>		<u>168,210,947</u>	<u>167,973,749</u>	<u>164,587,821</u>
<b>TAX EXPENSE</b>	15	<u>50,608,129</u>	<u>50,875,168</u>	<u>50,019,714</u>
<b>NET PROFIT</b>		<u>P 117,602,818</u>	<u>P 117,098,581</u>	<u>P 114,568,107</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	18	<u>P 0.19</u>	<u>P 0.19</u>	<u>P 0.18</u>

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>NET PROFIT</b>		<b>P 117,602,818</b>	P 117,098,581	P 114,568,107
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Items that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	14, 17	2,594,909	( 3,965,410 )	( 705,586 )
Tax income (expense)	15, 17	( 778,473 )	( 11,991,340 )	211,676
Revaluation increment on land	9, 17	-	43,936,544	-
		<u>1,816,436</u>	<u>27,979,794</u>	( <u>493,910</u> )
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 119,419,254</b>	P 145,078,375	P 114,074,197

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Revaluation Reserves</u>	<u>Total Equity</u>
Balance at January 1, 2018						
As previously reported		P 630,800,000	P 52,309,224	P 276,505,085	P 61,137,840	P 1,020,752,149
Effect of adoption of PFRS 9	2	<u>-</u>	<u>-</u>	( <u>9,021,416</u> )	<u>-</u>	( <u>9,021,416</u> )
As restated		630,800,000	52,309,224	267,483,669	61,137,840	1,011,730,733
Cash dividends	17	<u>-</u>	<u>-</u>	( <u>56,772,000</u> )	<u>-</u>	( <u>56,772,000</u> )
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>117,602,818</u>	<u>1,816,436</u>	<u>119,419,254</u>
Balance at December 31, 2018		<b><u>P 630,800,000</u></b>	<b><u>P 52,309,224</u></b>	<b><u>P 328,314,487</u></b>	<b><u>P 62,954,276</u></b>	<b><u>P 1,074,377,987</u></b>
Balance at January 1, 2017		P 630,800,000	P 52,309,224	P 216,178,504	P 33,158,046	P 932,445,774
Cash dividends	17	<u>-</u>	<u>-</u>	( <u>56,772,000</u> )	<u>-</u>	( <u>56,772,000</u> )
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>117,098,581</u>	<u>27,979,794</u>	<u>145,078,375</u>
Balance at December 31, 2017		<b><u>P 630,800,000</u></b>	<b><u>P 52,309,224</u></b>	<b><u>P 276,505,085</u></b>	<b><u>P 61,137,840</u></b>	<b><u>P 1,020,752,149</u></b>
Balance at January 1, 2016		P 630,800,000	P 52,309,224	P 133,150,397	P 33,651,956	P 849,911,577
Cash dividends	17	<u>-</u>	<u>-</u>	( <u>31,540,000</u> )	<u>-</u>	( <u>31,540,000</u> )
Total comprehensive income (loss) for the year		<u>-</u>	<u>-</u>	<u>114,568,107</u>	( <u>493,910</u> )	<u>114,074,197</u>
Balance at December 31, 2016		<b><u>P 630,800,000</u></b>	<b><u>P 52,309,224</u></b>	<b><u>P 216,178,504</u></b>	<b><u>P 33,158,046</u></b>	<b><u>P 932,445,774</u></b>

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*

	Notes	2018	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 168,210,947	P 167,973,749	P 164,587,821
Adjustments for:				
Depreciation and amortization	9, 10	31,476,494	30,696,496	28,834,527
Impairment loss on applied tax credit certificate	8	3,359,487	-	438,164
Reversal of allowance for impairment of trade receivables	6	( 2,604,476 )	-	-
Unrealized foreign currency losses (gains) - net		( 2,414,399 )	899,370	( 3,143,618 )
Interest expense	11, 14	1,139,025	1,084,992	1,246,337
Gain on sale of property and equipment	9	( 820,000 )	-	( 355,000 )
Finance income	5	( 522,880 )	( 394,276 )	( 1,469,700 )
Operating profit before working capital changes		197,824,198	200,260,331	190,138,531
Decrease (increase) in trade and other receivables		19,296,330	9,744,100	( 28,120,691 )
Increase in inventories		( 88,146,052 )	( 103,511 )	( 68,569,716 )
Increase in prepayments and other current assets		( 32,564,781 )	( 25,732,212 )	( 15,239,862 )
Decrease (increase) in other non-current assets		( 26,301,153 )	( 1,723,002 )	686,128
Increase (decrease) in trade and other payables		25,550,401	( 44,342,768 )	72,088,767
Decrease in post-employment defined benefit obligation		( 946,588 )	( 306,376 )	( 1,542,413 )
Cash generated from operations		94,712,355	137,796,562	149,440,744
Cash paid for income taxes		( 38,707,211 )	( 39,332,260 )	( 56,494,803 )
Interest received		443,536	349,469	1,222,916
Net Cash From Operating Activities		56,448,680	98,813,771	94,168,857
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	9	( 38,324,203 )	( 54,281,568 )	( 73,287,721 )
Proceeds from disposal of property, plant and equipment	9	950,732	-	355,000
Net Cash Used in Investing Activities		( 37,373,471 )	( 54,281,568 )	( 72,932,721 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Dividends paid	17	( 56,772,000 )	( 56,772,000 )	( 31,540,000 )
Proceeds from short-term loans	11	33,000,000	-	-
Payments of short-term loans and mortgage payables	11	( 6,908,120 )	( 2,053,828 )	( 2,431,248 )
Interest paid	11	( 739,619 )	( 643,641 )	( 584,455 )
Net Cash Used in Financing Activities		( 31,419,739 )	( 59,469,469 )	( 34,555,703 )
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		2,767,564	500,512	( 100,785 )
NET DECREASE IN CASH AND CASH EQUIVALENTS		( 9,576,966 )	( 14,436,754 )	( 13,420,352 )
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		90,965,672	105,402,426	118,822,778
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 81,388,706	P 90,965,672	P 105,402,426

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

- (i) In 2018, the Company purchased a certain machinery equipment amounting to P8.3 million, which was directly paid to the supplier by the related party in favor of the Company (see Notes 9 and 16). Also in 2018, the Company acquired a certain transportation equipment amounting to P3.2 million through short-term bank loan financing (see Notes 9 and 11).
- (ii) In 2017, the Company's land was revalued resulting in an increase in the value of such property amounting to P43.9 million (see Note 9).
- (iii) In September 2016, a parcel of land was purchased from a related party, applying the advances granted totalling P30.2 million (see Notes 9 and 16).
- (iv) The Company capitalized borrowing costs amounting to P0.8 million in 2016 (nil in 2018 and 2017) representing the actual borrowing costs incurred on loans obtained to fund the construction project (see Note 9).

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2018, 2017 and 2016**  
*(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. As a stock corporation, the Company's corporate life is 50 years.

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

The Company's shares were listed in the Philippine Stock Exchange (PSE) on April 27, 2015 (see Note 17.1).

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, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Company's BOD on March 12, 2019.

## 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.

##### *i. Adoption of New PFRS*

In 2018, the Company adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allows the Company not to restate its prior periods' financial statements. However, no significant impact was noted by the Company, both in relation to the classification and measurement of its financial assets as of January 1, 2018 because the Company only has trade and other receivables and cash and cash equivalents, classified as financial assets at amortized cost. On the other hand, differences arising from the adoption of PFRS 9 in relation to impairment of financial assets particularly trade and other receivables are recognized in the opening balance of Retained Earnings in the current year [see Note 2.2(a)(i)].

Further, the Company adopted PFRS 15, *Revenue from Contracts with Customers*, which was applied using the modified retrospective approach under which changes having material retrospective restatements on certain accounts in the statement of financial position as at January 1, 2018 are presented together as a single adjustment to the opening balance of Retained Earnings.



Although the Company's adoption of PFRS 15 has resulted in changes in its accounting policies, it has not resulted in any adjustment to the amounts recognized in the Company's financial statements since management determined that the Company's revenue process (i.e., five-step process), significant judgments or assumptions and recognition thereto based on the facts and circumstances surrounding its business activities related to the sale of goods did not significantly change and remain appropriate prior to and upon adoption of PFRS 15 (see Note 2.12).

Accordingly, the adoption of these two new accounting standards did not require the Company to present its third statement of financial position.

The table below shows the impact of the adoption of PFRS 9 to the Company's total equity as of January 1, 2018.

	<u>Note</u>	<u>Effects on</u>	
		<u>Retained Earnings</u>	<u>Total Equity</u>
Balance at January 1, 2018		<u>P 276,505,085</u>	<u>P 1,020,752,149</u>
Impact of PFRS 9:	2.2(a)(i)		
Increase in allowance for credit losses on trade receivables		( 12,887,737 )	( 12,887,737 )
Increase in deferred tax asset arising from increase in credit loss allowance		<u>3,866,321</u>	<u>3,866,321</u>
		<u>( 9,021,416 )</u>	<u>( 9,021,416 )</u>
		<u><b>P 267,483,669</b></u>	<u><b>P 1,011,730,733</b></u>

ii. *Reclassification of Account*

The Company reclassified certain accounts in the 2017 statement of financial position (i.e., portion of advances to suppliers amounting to P7.0 million from current to non-current assets, and mortgage payables amounting to P1.8 million under current portion of Trade and Other Payables account to Loans and Mortgage Payables account also under current liabilities) to conform with the current year presentation, which did not result in any material impact as it only affected presentation aspect. The related amounts of advances to supplier and mortgage payables reclassified in 2018 represent 0.9% and 1.2% of total current assets and total current liabilities, respectively, of the 2017 statement of financial position prior to such reclassifications (see Notes 10 and 11.2). The reclassifications did not result in any adjustment to the Company's total assets and total liabilities. Further, the reclassifications did not result in any significant impact in the Company's statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended December 31, 2017. Since the reclassifications had no material impact on the Company's financial statements, the Company did not present a third statement of financial position.

(c) *Functional and Presentation Currency*

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

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

## **2.2 Adoption of New and Amended PFRS**

### *(a) Effective in 2018 that are Relevant to the Company*

The Company adopted for the first time the following PFRS, interpretation and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to PFRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration
Annual Improvement to PFRS (2014-2016 Cycle)		
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

Discussed below and in the succeeding pages are the relevant information about these standards and interpretation.

- (i) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement*, and PFRS 9 issued in 2009, 2010 and 2013. 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, i.e., financial assets at amortized costs, fair value through profit and loss (FVTPL), and fair value through other comprehensive income (FVOCI);
  - an expected credit loss (ECL) model in determining impairment of all debt 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 such financial assets; 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.

The Company's new accounting policies relative to the adoption of PFRS 9 is fully disclosed in Notes 2.4 and 2.9 [see Note 2.1(b)(i)].

The impact of the adoption of this new accounting standard to the Company's financial statements is the application of the ECL methodology based on the lifetime ECL assessment using provision matrix for trade and other receivables which resulted in the recognition of additional allowance for credit losses for trade receivables amounting to P12.9 million as of January 1, 2018. Such amount, together with the related deferred tax asset amounting to P3.9 million (see Note 6), was charged against the opening balance of the Retained Earnings account.

The table below summarizes the effects of the adoption of PFRS 9 (2014) in the carrying amounts and presentation of the applicable category of the financial assets in the statement of financial position as of January 1, 2018. The adoption of PFRS 9 has no significant impact on the Company's financial liabilities.

	Carrying Value PAS 39 <u>December 31, 2017</u>		<u>Remeasurement</u>	Carrying Value PFRS 9 <u>January 1, 2018</u>	
<b>Financial assets at amortized cost:</b>					
Trade and other receivables:					
Gross amount	P	239,570,473	P	-	P 239,570,473
Allowance for credit losses	(	4,829,794)	(	12,887,737)	( 17,717,531)
<b>Total</b>	<b>P</b>	<b>234,740,679</b>	<b>(P</b>	<b>12,887,737)</b>	<b>P 221,852,942</b>

- (ii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company's adoption of PFRS 15 has resulted in changes in its accounting policies (see Note 2.12).

- (iii) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this interpretation has no impact on the Company's financial statements.



- (iv) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PFRS 1 (Amendments), *First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions* is relevant to the Company but had no material impact on the Company's financial statements as these amendments merely clarify existing requirements. The amendments removed short-term exemptions in PFRS 1 covering PFRS 7, *Financial Instruments: Disclosures*, PAS 19, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, because the reporting period to which the exemptions applied have already transpired.

(b) *Effective in 2018 that are not Relevant to the Company*

The following amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Company's financial statements:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and annual improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company's financial statements:

- (i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).
- (ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the “solely payments of principal and interests” (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right-of-use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17’s. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17’s. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of the Retained Earnings account at the date of initial application. The Company will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management is currently assessing the financial impact of this new standard on the Company’s financial statements.

- (iv) IFRIC 23, *Uncertainty over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Company to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Company has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

- (v) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the 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 existing requirements:
- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.
  - PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.
- (vi) PAS 1 (Amendments), *Presentation of Financial Statements* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments clarify the definition of "material". The information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. As of December 31, 2018, these amendments are still subject to Philippine Board of Accountancy's approval.

### ***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, *Operating Segments*, are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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



## 2.4 Financial Assets

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

### (a) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9*

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at FVOCI, and financial assets at FVTPL. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets at amortized cost is the only classification applicable to the Company. The classification and measurement of the Company's relevant financial assets are described below.

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

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

Except for trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with PFRS 15, all financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Company's financial assets at amortized cost in accordance with PFRS 9 are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances and portion of Other receivables) and Security deposits (presented under Other Non-current Assets account) in the statement of financial position.

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

(b) *Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39*

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 each reporting period, which are classified as non-current assets.

The Company's financial assets categorized as loans and receivables in accordance with PAS 39 are presented as Cash and Cash Equivalents, Trade and Other Receivables (except Advances and Other receivables) and Security deposits (presented under Other Non-current Assets account) in the statement of financial position.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(c) *Impairment of Financial Assets Under PFRS 9*

From January 1, 2018, the Company assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Company's identification of a credit loss event. Instead, the Company considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Company also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics, and have been grouped based on the days past due [see Note 20.2(b)].

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

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

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

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

*(d) Impairment of Financial Assets Under PAS 39*

As of December 31, 2017, the Company assessed impairment of financial assets such that if there is objective evidence that an impairment loss on loans and receivables carried at cost has been incurred, 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 reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in the profit or loss.

*(e) Derecognition of Financial Assets*

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

## **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 actual units produced. The cost of raw materials includes all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

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

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

## ***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 finite useful life for land can be determined, the related carrying amount is not depreciated.

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

Following initial recognition at cost, land is carried at revalued amount which is the fair value at the date of the revaluation as determined by independent appraisers. Revalued amount is the fair market value determined based on appraisal by external professional valuer once every two years or more frequently if market factors indicate a material change in fair value (see Note 22.3).

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:

Land improvements	5 years
Building and improvements	3-10 years
Transportation equipment	3-7 years
Machineries, factory, and other equipment	3-15 years
Furniture, fixtures and office equipment	3-5 years



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

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

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

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

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

## ***2.8 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 (except Advances from customers and tax-related payables), Loans and Mortgage Payables 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.

Trade and other payables, loans and mortgage 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 stockholders are recognized as financial liabilities upon declaration by the Company's BOD.

Interest-bearing loans, if any, normally 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 (except for capitalizable borrowing costs which are added as part of the cost of qualifying asset) using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

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

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. 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 entities 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 pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

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

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

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

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

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

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

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

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

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

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

Specifically, revenue from sale of goods is recognized when the control over the goods has been transferred at a point in time to the customer, i.e. generally when the customer has acknowledged delivery of goods. Invoices for goods transferred are due upon receipt by the customer. The significant judgments in determining the timing of satisfaction of the performance obligation is disclosed in Note 3.1(a).

As applicable, if the Company is required to refund the related purchase price for returned goods, it recognizes a refund liability for the expected refunds by adjusting the amount of revenues recognized during the period. Also if applicable, the Company recognizes a right of return asset on the goods to be recovered from the customers with a corresponding adjustment to Cost of Goods Sold account. However, there were no contracts that contained significant right of return arrangements that remain outstanding during the reporting periods [see Note 3.1(b)].

In obtaining customer contracts, the Company incurs incremental costs. As the expected amortization period of these costs, if capitalized, would be less than one year, the Company uses the practical expedient in PFRS 15 and recognizes as outright expenses such costs as incurred. The Company also incurs costs in fulfilling contracts with customers. However, as those costs are within the scope of other financial reporting standards, the Company accounts for those costs in accordance with accounting policies related to those financial reporting standards (see Notes 2.5, 2.7 and 2.8).

In 2017 and prior periods, the Company recognized revenues based on the provisions of PAS 18 which is to the extent that such revenues and the related costs incurred or to be incurred can be measured reliably and it is probable that future economic benefits will flow to the Company. Specifically, for sale of goods, revenues were recognized when the risks and rewards of ownership of the goods have passed to the buyer. Where the outcome of the contract cannot be measured reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

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

### ***2.13 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 fulfilment 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 (presented under the Other Non-current Assets account) and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

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

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

## **2.16 Employee Benefits**

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

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

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

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

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds 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. The interest rates are based from the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), in 2018; and by Philippine Dealing and Exchange Corp. in 2017. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

(c) *Post-employment Defined Contribution Plan*

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

(d) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *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.

(e) *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 Relationships and Transactions***

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



Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (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.

Revaluation reserves account pertains to remeasurements of 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, if any, is not available for dividend distribution, represent all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

### ***2.21 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) Determination of Timing of Satisfaction of Performance Obligations (2018)*

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

*(b) Determination of Transaction Price (2018)*

The transaction price which excludes any amounts collected on behalf of third parties (e.g., VAT) is considered receivable to the extent of products sold with consideration on the right of return, if applicable (see Note 2.12). Also, the Company uses the practical expedient in PFRS 15 with respect to non-adjustment of the promised amount of consideration for the effects of any financing component [i.e., the Company receives advances from certain customers which can be applied to their future purchases (see Note 11.1)] as the Company expects, at contract inception, that the period between when the Company transfers promised goods or services to the customer and payment due date is one year or less.

*(c) Determination of ECL on Trade and Other Receivables (2018)*

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

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables are disclosed in Note 20.2(b).

*(d) Determination of Cost of Inventories*

In inventory costing, management uses estimates and judgment in properly allocating the labor and overhead between the cost of inventories on hand and cost of goods sold. Currently, the Company allocates manufacturing overhead on the basis of actual units produced. However, the amount of costs charged to finished goods inventories would differ if the Company utilized a different allocation base.

Changes in allocated cost would affect the carrying cost of inventories and could potentially affect the valuation based on lower of cost and net realizable value.

(e) *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.

(f) *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 19.

### **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) *Estimation of Allowance for ECL (2018)*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 20.2(b).

(b) *Impairment of Trade and Other Receivables (2017)*

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 collectability 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.

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

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Even though the Company's core business is not continuously subject to rapid 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.

There was no inventory write-down to recognize the inventories at their net realizable value in 2018 and 2017 based on management's assessment.

(d) *Estimation of 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, 2018 and 2017, 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 the factors mentioned above.

(e) *Measurement of Fair Value of Land*

The Company's land is carried at revalued amount at the end of the reporting period. In determining its fair value, the Company engages the services of professional and independent appraisers applying the relevant valuation methodology (see Note 22.3).

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.

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

The Company reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2018 and 2017 will be fully utilized in the coming years. The carrying values of deferred tax assets netted against deferred tax liabilities as of those reporting periods are disclosed in Note 15.



(g) *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 2018, 2017 and 2016, except for the impairment loss recognized on the Company's applied tax credit certificate (TCC) in 2018 (see Note 8).

(h) *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 14.2.

## 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 three major business segments, namely: compounds, pipes and roofing. These are also the basis of the Company in reporting to its chief operating decision-maker for its strategic decision-making activities.

The products under the compounds segment are the following:

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

The products under the pipes segment are the following:

- PVC pipes and fittings;
- Polypropylene Random Copolymer Type 3 pipes and fittings; and,
- High-density Polyethylene pipes and fittings.

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

The Company's products are located in Guiguinto, Bulacan; Davao branch and Valenzuela 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. 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 analysed as follows:

	<u>Compounds</u>	<u>Pipes</u>	<u>Roofing</u>	<u>Total</u>
<b><u>For the year ended December 31, 2018</u></b>				
<b>Statement of Profit or Loss</b>				
Revenues	P 682,227,418	P 495,786,523	P 9,172,327	P1,187,186,268
Costs and Other Operating Expenses				
Cost of goods sold (excluding depreciation and amortization)	529,853,661	299,482,501	4,765,735	834,101,897
Depreciation and amortization	6,511,907	12,520,829	2,386,870	21,419,606
Other operating expenses (excluding depreciation and amortization)	40,787,494	83,529,075	4,513,764	128,830,333
	<u>577,153,062</u>	<u>395,532,405</u>	<u>11,666,369</u>	<u>984,351,836</u>
Other Charges (Income) – net	( 2,848,304)	194,704	( 115,567)	( 2,769,167)
Segment Operating Profit	<u>P 107,922,660</u>	<u>P 100,059,414</u>	<u>(P 2,378,475)</u>	<u>P 205,603,599</u>
<b><u>December 31, 2018</u></b>				
<b>Statement of Financial Position</b>				
Segment assets	P 453,800,426	P 670,648,854	P 54,393,844	P1,178,843,123
<b><u>For the year ended December 31, 2017</u></b>				
<b>Statement of Profit or Loss</b>				
Revenues	P 722,112,286	P 532,457,817	P 729,922	P1,255,300,025
Costs and Other Operating Expenses				
Cost of goods sold (excluding depreciation and amortization)	559,291,094	325,405,341	2,109,668	886,806,103
Depreciation and amortization	5,932,504	23,289,641	495	29,222,640
Other operating expenses (excluding depreciation and amortization)	53,621,860	84,957,601	2,621,269	141,200,730
	<u>618,845,458</u>	<u>433,652,583</u>	<u>4,731,432</u>	<u>1,057,229,473</u>
Other Charges (Income) – net	932,342	( 195,864)	( 44,948)	691,530
Segment Operating Profit	<u>P 102,334,486</u>	<u>P 99,001,098</u>	<u>(P 3,956,562)</u>	<u>P 197,379,022</u>
<b><u>December 31, 2017</u></b>				
<b>Statement of Financial Position</b>				
Segment assets	P 284,103,695	P 688,729,143	P 30,386,651	P1,003,219,489

	<u>Compounds</u>	<u>Pipes</u>	<u>Roofing</u>	<u>Total</u>
<u>For the year ended December 31, 2016</u>				
Statement of Profit or Loss				
Revenues	<u>P 597,404,432</u>	<u>P 518,571,097</u>	<u>P -</u>	<u>P1,115,975,529</u>
Costs and Other Operating Expenses				
Cost of goods sold (excluding depreciation and amortization)	461,392,619	336,300,248	-	797,692,867
Depreciation and amortization	5,683,346	21,900,912	-	27,584,258
Other operating expenses (excluding depreciation And amortization)	<u>28,621,097</u>	<u>76,237,964</u>	<u>-</u>	<u>104,859,061</u>
	<u>495,697,062</u>	<u>434,439,124</u>	<u>-</u>	<u>930,136,186</u>
Other Charges (Income) – net	<u>( 3,388,880)</u>	<u>338,506</u>	<u>-</u>	<u>( 3,050,374)</u>
Segment Operating Profit	<u>P 105,096,250</u>	<u>P 83,793,467</u>	<u>P -</u>	<u>P 188,889,717</u>
<u>December 31, 2016</u>				
Statement of Financial Position				
Segment assets	P 287,225,288	P 647,481,053	P -	P934,706,341
Segment liabilities	82,839,112	102,180,186	-	185,019,928

Currently, the Company's operation is concentrated within the Philippines for local sales and export sales, which are further broken down as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Domestic	<b>P 878,617,559</b>	P 888,407,632	P 839,010,371
Foreign:			
Taiwan	<b>266,167,161</b>	305,037,906	226,208,240
Others	<b><u>42,401,548</u></b>	<b><u>61,854,487</u></b>	<b><u>50,756,918</u></b>
Total	<b><u>P 1,187,186,268</u></b>	<b><u>P 1,255,300,025</u></b>	<b><u>P 1,115,975,529</u></b>

Total revenues include revenues from one major customer totalling 22.42% in 2018, 24.30% in 2017 and 20.27% in 2016.

#### 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>2018</u>	<u>2017</u>	<u>2016</u>
<b>Profit or Loss</b>			
Segment results	<b>P 205,603,599</b>	P 197,379,022	P 188,889,717
Other unallocated income (charges) - net	<b>724,286</b>	( 45,649)	1,296,808
Other unallocated expenses	<b><u>( 38,116,938)</u></b>	<b><u>( 29,359,624)</u></b>	<b><u>( 25,598,704)</u></b>
Profit before tax as reported in profit or loss	<b><u>P 168,210,947</u></b>	<b><u>P 167,973,749</u></b>	<b><u>P 164,587,821</u></b>
<b>Assets</b>			
Segment assets	<b>P 1,178,843,123</b>	P 1,003,219,489	P 934,706,341
Other unallocated assets	<b><u>135,540,539</u></b>	<b><u>199,301,414</u></b>	<b><u>210,400,213</u></b>
Total assets reported in the statements of financial position	<b><u>P 1,314,383,662</u></b>	<b><u>P 1,202,520,903</u></b>	<b><u>P 1,145,106,554</u></b>

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Liabilities</b>			
Segment liabilities	<b>P 240,005,675</b>	P 181,768,754	P 185,019,928
Other unallocated liabilities*	<u>-</u>	<u>-</u>	<u>27,640,852</u>
Total liabilities reported in the statements of financial position	<b><u>P 240,005,675</u></b>	<b><u>P 181,768,754</u></b>	<b><u>P 212,660,780</u></b>

*\*Starting in 2017, management, opted and therefore, no longer allocated liabilities into segments as it is not required under PFRS 8.*

#### **4.6 Disaggregation of Revenues**

When the Company prepares its investor presentations and when the Company's Executive Committee evaluates the financial performance of the operating segments, it disaggregates revenue similar to its segment reporting as presented in Notes 4.1 and 4.4. The Group determines that the categories used in the investor presentations and financial reports used by the Company's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. While all of the Company's revenues from sale of goods are recognized at point in time, a summary of additional disaggregation from the segment revenues in 2018 are shown below.

##### *Sales channel:*

Manufacturers and traders	P 682,227,418
Contractors and developers	270,740,904
Wholesalers and retailers	<u>234,217,946</u>
	<b><u>P1,187,186,268</u></b>

## **5. CASH AND CASH EQUIVALENTS**

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

	<u>2018</u>	<u>2017</u>
Cash on hand and in banks	<b>P 36,409,723</b>	P 88,465,313
Short-term placements	<u><b>44,978,983</b></u>	<u>2,500,359</u>
	<b><u>P 81,388,706</u></b>	<b><u>P 90,965,672</u></b>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have maturity of 30 to 90 days and earn effective interest rates ranging from 1.00% to 1.79% in 2018 and 1.13% to 1.65% in 2017.

Interest income amounting to P0.5 million, P0.4 million and P1.5 million in 2018, 2017 and 2016, respectively, are presented as Finance Income under Other Income (Charges) in the statements of profit or loss.

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Trade receivables	16.1	<b>P 209,845,013</b>	P 232,997,147
Advances to:			
Suppliers and contractors		<b>9,498,516</b>	5,063,778
Officers and employees		<b>1,498,623</b>	1,433,699
Other receivables	16.3	<u><b>74,640</b></u>	<u>75,849</u>
		<b>220,916,792</b>	239,570,473
Allowance for impairment		<b>( 14,996,514)</b>	<b>( 4,829,794)</b>
		<u><b>P 205,920,278</b></u>	<u>P 234,740,679</u>

Trade receivables are due from various customers and have credit terms of 30 to 90 days. Of the total outstanding trade receivables, P40.7 million and P56.5 million as of December 31, 2018 and 2017, respectively, are guaranteed by customers' post-dated checks in the custody of the Company.

Advances to suppliers and contractors pertain to downpayments made by the Company to the suppliers for the purchase of goods and machineries (see Note 10). The advance payments will be set-off as partial payments on the amounts due to the suppliers once full delivery of goods is made and the subsequent billings have been made by the suppliers.

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 2018 and 2017 is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Balance at beginning of year, as previously reported		<b>P 4,829,794</b>	P 7,919,213
Effect of application of PFRS 9	20.2(b)	<u><b>12,887,737</b></u>	<u>-</u>
As restated		<b>17,717,531</b>	7,919,213
Reversal	20.2(b)	<b>( 2,604,476)</b>	-
Write-offs		<u><b>( 116,541)</b></u>	<u>( 3,089,419)</u>
Balance at end of year		<u><b>P 14,996,514</b></u>	<u>P 4,829,794</u>

All of the Company's trade and other receivables have been reviewed for indications of impairment. Certain trade receivables were found to be impaired using the provisional matrix as determined by management; hence, adequate amounts of allowance for impairment have been recognized [see Note 20.2(b)]. Reversal of allowance for impairment is presented as part of Other Income in the 2018 statement 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>2018</u>	<u>2017</u>
Finished goods	<b>P 239,002,569</b>	P 203,913,087
Raw materials	<b>206,687,341</b>	155,822,092
Supplies	<b>9,316,639</b>	4,689,596
Packaging materials	<b>2,452,613</b>	2,341,103
Work-in-process	<b><u>241,522</u></b>	<u>2,788,754</u>
	<b><u>P 457,700,684</u></b>	<u>P 369,554,632</u>

An analysis of the cost of inventories included in cost of goods sold for the year is presented in Note 12.

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Input VAT - net	24(b)	<b>P 82,481,552</b>	P 78,228,862
Prepaid expenses		<b>17,988,633</b>	10,178,248
Application for TCC		<b><u>15,890,637</u></b>	<u>7,015,497</u>
		<b>116,360,822</b>	95,422,607
Allowance for impairment		<b>( <u>10,374,984</u> )</b>	<b>( <u>7,015,497</u> )</b>
		<b><u>P 105,985,838</u></b>	<u>P 88,407,110</u>

A reconciliation of the allowance for impairment at the beginning and end of 2018 and 2017 is shown below.

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 7,015,497</b>	P 7,015,497
Impairment loss	<b><u>3,359,487</u></b>	<u>-</u>
Balance at end of year	<b><u>P 10,374,984</u></b>	<u>P 7,015,497</u>

Prepaid expenses include, among others, prepayments for insurance and freight related to the distribution of the Company's goods.

Application for TCC pertains to input VAT from the Company's importations of raw materials which are under application with the Department of Finance and BIR for the granting of TCC as of December 31, 2018 and 2017. As of December 31, 2016, 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 amounting to P7.0 million be recognized without prejudice on the final expected outcome of the Company's rightful claim. In 2018, the Company filed another application for TCC amounting to P8.9 million with the BIR. In January 2019, the Company received the BIR's letter of denial for the portion amounting to P3.4 million. Accordingly, the Company recognized additional allowance for impairment amounting to P3.4 million in 2018.



Management has assessed that the remaining portion of the outstanding application for TCC amounting to P5.5 million made in 2018 is recoverable considering that the period to grant a refund or TCC of 90 days under Republic Act No. 10963 (or Tax Reform for Acceleration and Inclusion) effective January 2018 has lapsed from the Company's application date. Management has also assessed that an amicable settlement or resolution is highly probable considering that it has complied with all the necessary regulatory requirements pursuant to the application for TCC.

## 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 2018 and 2017 are shown below.

	At Appraised Value		At Cost					
	Land	Land Improvements	Building and Improvements	Transportation Equipment	Machineries, Factory, and Other Equipment	Furniture, Fixtures and Office Equipment	Construction in Progress	Total
December 31, 2018								
Cost or valuation	P158,544,000	P 3,179,251	P 136,576,504	P 44,996,695	P 446,421,372	P 38,243,591	P 5,329,244	P 833,290,657
Accumulated depreciation and amortization	-	( 1,269,576 )	( 63,526,319 )	( 30,894,428 )	( 299,138,068 )	( 23,063,839 )	-	( 417,892,230 )
Net carrying amount	<u>P158,544,000</u>	<u>P 1,909,675</u>	<u>P 73,050,185</u>	<u>P 14,102,267</u>	<u>P 147,283,304</u>	<u>P 15,179,752</u>	<u>P 5,329,244</u>	<u>P 415,398,427</u>
December 31, 2017								
Cost or valuation	P158,544,000	P 3,179,251	P 126,456,077	P 39,910,679	P 416,303,467	P 31,272,536	P 9,309,337	P 784,975,347
Accumulated depreciation and amortization	-	( 1,034,803 )	( 53,916,084 )	( 29,589,944 )	( 282,229,150 )	( 21,099,398 )	-	( 387,869,379 )
Net carrying amount	<u>P158,544,000</u>	<u>P 2,144,448</u>	<u>P 72,539,993</u>	<u>P 10,320,735</u>	<u>P 134,074,317</u>	<u>P 10,173,138</u>	<u>P 9,309,337</u>	<u>P 397,105,968</u>
January 1, 2017								
Cost or valuation	P114,607,456	P 3,179,251	P 112,483,420	P 36,703,862	P 376,933,489	P 29,831,291	P 13,018,466	P 686,757,235
Accumulated depreciation and amortization	-	( 696,216 )	( 45,992,232 )	( 26,479,715 )	( 264,911,135 )	( 19,148,614 )	-	( 357,227,912 )
Net carrying amount	<u>P114,607,456</u>	<u>P 2,483,035</u>	<u>P 66,491,188</u>	<u>P 10,224,147</u>	<u>P 112,022,354</u>	<u>P 10,682,677</u>	<u>P 13,018,466</u>	<u>P 329,529,323</u>

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of 2018, 2017 and 2016 is shown below.

	At Appraised Value		At Cost					
	Land	Land Improvements	Building and Improvements	Transportation Equipment	Machineries, Factory, and Other Equipment	Furniture, Fixtures and Office Equipment	Construction in Progress	Total
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 158,444,000	P 2,144,448	P 72,539,993	P 10,320,735	P 134,074,317	P 10,173,138	P 9,309,337	P 397,105,968
Additions	-	-	-	6,468,215	30,249,359	6,983,511	6,140,334	49,841,419
Reclassification	-	-	10,120,427	-	-	-	( 10,120,427 )	-
Disposals	-	-	-	-	( 125,194 )	( 5,538 )	-	( 130,732 )
Depreciation and amortization charges for the year	-	( 234,773 )	( 9,610,235 )	( 2,686,683 )	( 16,915,178 )	( 1,971,359 )	-	( 31,418,228 )
Balance at December 31, 2018, net of accumulated depreciation and amortization	<u>P 158,444,000</u>	<u>P 1,909,675</u>	<u>P 73,050,185</u>	<u>P 14,102,267</u>	<u>P 147,283,304</u>	<u>P 15,179,752</u>	<u>P 5,329,244</u>	<u>P 415,398,427</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P114,607,456	P 2,483,035	P 66,491,188	P 10,224,147	P 112,022,354	P 10,682,677	P 13,018,466	P 329,529,323
Additions	-	-	19,943	3,206,817	36,202,855	1,441,245	13,410,708	54,281,568
Revaluation	43,936,544	-	-	-	-	-	-	43,936,544
Reclassification	-	-	13,952,714	-	3,167,123	-	( 17,119,837 )	-
Depreciation and amortization charges for the year	-	( 338,587 )	( 7,923,852 )	( 3,110,229 )	( 17,318,015 )	( 1,950,784 )	-	( 30,641,467 )
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P158,544,000</u>	<u>P 2,144,448</u>	<u>P 72,539,993</u>	<u>P 10,320,735</u>	<u>P 134,074,317</u>	<u>P 10,173,138</u>	<u>P 9,309,337</u>	<u>P 397,105,968</u>

Land is stated at revalued amount, being the fair value at the date of revaluation in 2017. 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 P63.9 million as of December 31, 2018 and 2017. 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. The valuation process was conducted by an independent 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 22.3.

In 2016, a parcel of land was purchased from a related party, applying the advances granted totalling P30.2 million (see Note 16.3). In 2018, the Company purchased certain machinery equipment, through advances obtained from a related party (see Note 16.3).

Construction in progress pertains to accumulated costs incurred in the construction of warehouse for Roofing Division and production buildings and extension of warehouse shed for finished goods and raw materials warehouses for Pipes Division. In 2018, additional construction costs were incurred in the construction of quality assurance office for Roofing Division and re-roofing of raw materials warehouse for Pipes Division and roof office extension of the corporate office. The percentage of completion of construction in progress ranges from 80% to 90% and 70% to 90% as of December 31, 2018 and 2017, respectively. These projects that are ongoing in 2018 are expected to be completed by the second quarter of 2019.

The amount of depreciation and amortization (see Note 13) is allocated and presented in the statements of profit or loss under the following line items:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cost of goods sold	<b>P20,554,453</b>	P20,518,226	P 19,879,465
Operating expenses	<b><u>10,863,775</u></b>	<u>10,123,241</u>	<u>8,894,170</u>
	<b><u>P31,418,228</u></b>	<u>P30,641,467</u>	<u>P28,773,635</u>

In 2018 and 2016, the Company recognized a gain on disposal of transportation equipment totalling P0.8 million and P0.4 million for 2018 and 2016, respectively, which are presented as part of Other income under Other Income (Charges) in the 2018 and 2016 statements of profit or loss. No similar transaction was recognized in 2017.

Transportation equipment with a total carrying value of P7.8 million and P6.1 million as of December 31, 2018 and 2017, respectively, are used as collateral for car loans (see Note 11.2).

As of December 31, 2018 and 2017, the gross carrying amounts of the Company's fully depreciated and amortized property, plant and equipment that are still being used are P108.2 million and P97.5 million, 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>Notes</u>	<u>2018</u>	<u>2017</u>
Deposit for future investment		<b>P 25,780,000</b>	P -
Advances to suppliers and contractors	6	<b>9,762,084</b>	6,968,854
Deferred input VAT	24(b)	<b>9,162,370</b>	10,985,425
Security deposits	16.4, 19.1	<b>2,659,002</b>	3,151,179
Trademarks - net		<b>335,184</b>	350,294
Others		<b>291,089</b>	291,090
		<b><u>P 47,989,729</u></b>	<b><u>P 21,746,842</u></b>

Deposit for future investment pertains to the cash payment made by the Company for future land acquisition under a memorandum of understanding with a certain third party. While the ownership of the property is not yet transferred to the Company, it remains committed to purchase such land as of December 31, 2018.

Deferred input VAT 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 in cash 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 21.1).

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 and 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, 2018 and 2017.

## 11. LOANS AND PAYABLES

### 11.1 Trade and other payables

The composition of this account is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Trade payables	16.2	<b>P 137,000,982</b>	P 114,117,496
Advances from customers		<b>15,157,262</b>	11,321,861
Advances from a related party	16.3	<b>8,327,216</b>	-
Accrued expenses		<b>6,692,513</b>	5,672,708
Others		<b>8,369,831</b>	9,445,767
		<b><u>P 175,547,804</u></b>	<b><u>P 140,557,832</u></b>

Advances from customers pertain to advance payments received from customers to guarantee goods placed for order to the Company. Upon delivery of goods ordered by the customer, the Company sets off these advances to the total amount of receivable from the customer.

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

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.

## 11.2 Loans and Mortgage Payables

The composition of this account is shown below.

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Current:			
Short-term loans		<b>P 28,000,000</b>	P -
Mortgage payables	9	<u>1,895,312</u>	<u>1,752,436</u>
		<b>29,895,312</b>	1,752,436
Non-current –			
Mortgage payables	9	<u>3,619,713</u>	<u>2,480,709</u>
		<b>P 33,515,025</b>	<b>P 4,233,145</b>

In 2018, the Company entered into short-term loan agreements with a local bank for working capital purposes. The short-term loans bear fixed annual interest which ranges from 4.30% to 6.40%, payable in lump sum within two to six months. The related outstanding balances are presented as Short-term loans under the Loans and Mortgage Payables account in the statements of financial position.

In 2018 and prior years, the Company entered into car loan agreements with a local bank 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 9.75% to 12.75% and have terms of five year, payable monthly. The related outstanding balances are presented as Mortgage payables under the Loans and Mortgage Payables account for the current portion and Mortgage Payables account for the non-current portion in the statements of financial position.

Interest expense related to the short-term loans and mortgage payables amounted to P0.7 million, P0.6 million and P1.1 million for the years ended December 31, 2018, 2017 and 2016, respectively, and is shown as part of Finance Costs in the statements of profit or loss. There were no borrowing costs capitalized in 2018 and 2017, while capitalized borrowing costs in 2016 amounted to P0.8 million.

A reconciliation of the Company's short-term loans and mortgage payables as required by PAS 7, *Statement of Cash Flows*, is as follows:

	<u>Short-term Loans</u>	<u>Mortgage Payables</u>	<u>Total</u>
Balance as of January 1, 2018	P -	P 4,233,145	P 4,233,145
Additional borrowings	33,000,000	3,190,000	36,190,000
Interest accrued	332,389	407,230	739,619
Payments made	( 5,000,000)	( 1,908,120)	( 6,908,120)
Interest paid	( 332,389)	( 407,230)	( 739,619)
<b>Balance as of December 31, 2018</b>	<b><u>P 28,000,000</u></b>	<b><u>P 5,515,025</u></b>	<b><u>P 33,515,025</u></b>
Balance as of January 1, 2017	P -	P 6,286,973	P 6,286,973
Interest accrued	-	643,641	643,641
Payments made	-	( 2,053,828)	( 2,053,828)
Interest paid	-	( 643,641)	( 643,641)
Balance as of December 31, 2017	<u>P -</u>	<u>P 4,233,145</u>	<u>P 4,233,145</u>

## 12. COST OF GOODS SOLD

The details of cost of goods sold are shown below.

	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Finished goods at beginning of year	7	<b><u>P203,913,087</u></b>	<u>P 220,737,901</u>	<u>P171,213,640</u>
Cost of goods manufactured:				
Raw materials at beginning of year	7	<b>155,822,092</b>	140,195,347	121,549,518
Net purchases during the year		<b>841,295,869</b>	816,643,543	791,268,325
Direct labor	14.1	<b>24,255,785</b>	20,472,291	14,064,028
Manufacturing overhead	9, 14.1	<b>72,512,196</b>	71,799,181	80,410,068
Raw materials at end of year	7	<b>( 206,687,341)</b>	( 155,822,092)	( 140,195,347)
Work-in-process at beginning of the year		<b>2,788,754</b>	-	-
Work-in-process at end of year	7	<b>( 241,522)</b>	<u>2,788,754</u>	<u>-</u>
		<b><u>889,745,833</u></b>	<u>890,499,516</u>	<u>867,096,592</u>
Finished goods at end of year	7	<b>( 239,002,569)</b>	( 203,913,087)	( 220,737,901)
		<b><u>P854,656,351</u></b>	<u>P907,324,330</u>	<u>P817,572,331</u>

### 13. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2018	2017	2016
Materials used in production		<b>P 790,430,620</b>	P 801,016,798	P772,622,496
Salaries and employee benefits	14.1	<b>96,166,696</b>	94,307,955	66,158,444
Utilities		<b>35,774,006</b>	32,916,265	30,810,406
Changes in finished goods		<b>( 35,089,482)</b>	16,824,814	( 49,524,261)
Depreciation and amortization	9, 10	<b>31,476,494</b>	30,696,496	28,834,527
Outside services		<b>25,479,642</b>	21,378,727	22,687,290
Advertising and promotions		<b>12,594,166</b>	12,014,116	11,998,910
Transportation and travel		<b>10,577,430</b>	16,798,656	22,609,774
Taxes and licenses	24(f)	<b>9,180,832</b>	7,623,807	7,333,805
Delivery		<b>9,073,249</b>	17,740,516	6,201,861
Repairs and maintenance		<b>8,183,478</b>	9,113,280	10,399,982
Supplies		<b>8,058,524</b>	7,069,351	7,545,220
Rentals	16.4, 19.1	<b>3,908,394</b>	4,404,360	2,829,641
Professional fees		<b>3,188,473</b>	3,284,402	2,742,943
Changes in work-in-process		<b>2,547,232</b>	( 2,788,754)	-
Representation		<b>2,105,646</b>	5,665,216	4,917,626
Insurance		<b>1,740,891</b>	1,519,477	1,503,654
Miscellaneous		<b>6,317,473</b>	7,003,615	6,062,572
		<b><u>P 1,021,713,764</u></b>	<u>P1,086,589,097</u>	<u>P955,734,890</u>

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

	Note	2018	2017	2016
Cost of goods sold	12	<b>P 854,656,351</b>	P 907,324,330	P817,572,331
Other operating expenses		<b><u>167,057,413</u></b>	<u>179,264,767</u>	<u>138,162,559</u>
		<b><u>P 1,021,713,764</u></b>	<u>P1,086,589,097</u>	<u>P955,734,890</u>

### 14. EMPLOYEE BENEFITS

#### 14.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

	Notes	2018	2017	2016
Short-term employee benefits		<b>P 93,195,654</b>	P 90,589,712	P 63,191,177
Post-employment defined benefits	14.2	<b><u>2,971,042</u></b>	<u>3,718,243</u>	<u>2,967,267</u>
	13	<b><u>P 96,166,696</u></b>	<u>P 94,307,955</u>	<u>P 66,158,444</u>

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

	Notes	2018	2017	2016
Cost of goods sold	12	<b>P 25,995,743</b>	P 22,109,089	P 15,618,652
Other operating expenses		<b><u>70,170,953</u></b>	<u>72,198,866</u>	<u>50,539,792</u>
	13	<b><u>P 96,166,696</u></b>	<u>P 94,307,955</u>	<u>P 66,158,444</u>



## 14.2 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 below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

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

	<u>2018</u>	<u>2017</u>
Present value of the obligation	<b>P 42,546,702</b>	P 43,906,186
Fair value of plan assets	<b>( 36,420,917)</b>	( 34,638,310)
	<b><u>P 6,125,785</u></b>	<b><u>P 9,267,876</u></b>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 43,906,186</b>	P 36,448,325
Current service cost	<b>2,971,042</b>	3,718,243
Interest cost	<b>2,344,590</b>	1,760,454
Benefits paid:		
From plan assets	<b>( 340,932)</b>	-
From book reserves	-	( 106,989)
Remeasurement – actuarial losses (gains) arising from:		
Changes in financial assumptions	<b>( 8,662,401)</b>	( 1,490,629)
Experience adjustments	<b><u>2,328,217</u></b>	<u>3,576,782</u>
Balance at end of year	<b><u>P 42,546,702</u></b>	<b><u>P 43,906,186</u></b>

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

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	<b>P 34,638,310</b>	P 31,007,656
Contributions to the plan	<b>3,917,630</b>	3,917,630
Interest income	<b>1,945,184</b>	1,592,281
Benefits paid	<b>( 340,932)</b>	-
Actuarial loss on interest income from plan assets	<b>( 3,739,275)</b>	( 1,879,257)
Balance at end of year	<b><u>P 36,420,917</u></b>	<u>P 34,638,310</u>

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	<b>P 16,221,876</b>	P 1,752,698
Debt securities – Philippine government bonds	<b>14,630,282</b>	29,518,768
Unit investment trust funds (UITF)	<b>5,568,759</b>	1,908,571
Others	<b>-</b>	1,458,273
	<b><u>P 36,420,917</u></b>	<u>P 34,638,310</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 (see Note 22.1)].

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>2018</u>	<u>2017</u>	<u>2016</u>
<i>Recognized in profit or loss:</i>			
Current service cost	<b>P 2,971,042</b>	P 3,718,243	P 2,967,267
Net interest expense	<b><u>399,406</u></b>	<u>168,173</u>	<u>183,549</u>
	<b><u>P 3,370,448</u></b>	<u>P 3,886,416</u>	<u>P 3,150,816</u>
<i>Recognized in other comprehensive income:</i>			
Actuarial losses (gains) arising from:			
Changes in financial assumptions	<b>(P 8,662,401)</b>	(P 1,490,629)	(P 529,602)
Experience adjustments	<b>2,328,217</b>	3,576,782	1,488,685
Negative (positive) return on plan assets	<b><u>3,739,275</u></b>	<u>1,879,257</u>	<u>( 253,497)</u>
	<b><u>(P 2,594,909)</u></b>	<u>P 3,965,410</u>	<u>P 705,586</u>

Current service costs are included as part of Salaries and employee benefits under Cost of Goods Sold and Other Operating Expenses in the statements of profit or loss (see Notes 12 and 13).

The net interest expense is included as part of Finance Costs 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>2018</u>	<u>2017</u>	<u>2016</u>
Discount rate	<b>7.50%</b>	5.34%	4.83%
Salary increase rate	<b>5.00%</b>	6.41%	6.41%

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 26.4 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 zero coupon government bonds, 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 bond will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and 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 in below and in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2018, 2017 and 2016:

	Impact on Post-Employment Defined Benefit Obligation		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<b><u>December 31, 2018</u></b>			
Discount rate	+/- 1.0%	(P 1,855,348)	P 1,543,679
Salary growth rate	+/- 1.0%	1,884,221	( 1,591,009)
<b><u>December 31, 2017</u></b>			
Discount rate	+/- 1.0%	(P 2,511,656)	P 3,081,025
Salary growth rate	+/- 1.0%	2,579,116	( 2,118,128)
<b><u>December 31, 2016</u></b>			
Discount rate	+/- 1.0%	(P 2,308,379)	P 2,918,654
Salary growth rate	+/- 1.0%	2,684,701	( 2,185,048)

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, 2018 and 2017 consists of debt securities and readily available cash and cash equivalents, pending placement in investments with balanced risks and rewards optimization. The Company also has UITF for liquidity purposes.

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

(iii) *Funding Arrangements and Expected Contributions*

The Company 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 for the next ten years follow:

	<u>2018</u>		<u>2017</u>
Within one year to five years	<b>P 36,420,643</b>	P	34,366,740
More than five years to ten years	<u>4,553,887</u>		<u>6,908,667</u>
	<b><u>P 40,974,530</u></b>	P	<u>41,275,407</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 4.0 years.

## 15. CURRENT AND DEFERRED TAXES

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 49,416,906</b>	P 50,734,075	P 49,335,275
Final tax at 20%; and 15% in 2018 and 7.5% in 2017	<u>79,345</u>	<u>44,806</u>	<u>246,784</u>
	<b>49,496,251</b>	50,778,881	49,582,059
Deferred tax expense relating to origination and reversal of temporary differences	<u>1,111,878</u>	<u>96,287</u>	<u>437,655</u>
	<b><u>P 50,608,129</u></b>	<b><u>P 50,875,168</u></b>	<b><u>P 50,019,714</u></b>
<i>Reported in other comprehensive income (loss) –</i>			
Deferred tax expense (income) relating to revaluation increment on land and remeasurements of post-employment defined benefit plan	<b><u>P 778,473</u></b>	<b><u>P 11,991,340</u></b>	<b><u>(P 211,676)</u></b>

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tax on pre-tax profit at 30%	<b>P 50,463,284</b>	P 50,392,125	P 49,376,346
Adjustment for income subjected to lower tax rates	( <b>77,520</b> )	( 73,476)	( 194,126)
Tax effects of non-deductible expenses	<u><b>222,365</b></u>	<u>556,519</u>	<u>837,494</u>
Tax expense reported in profit or loss	<u><b>P 50,608,129</b></u>	<u>P 50,875,168</u>	<u>P 50,019,714</u>

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

	<u>Statements of Financial Position</u>	
	<u>2018</u>	<u>2017</u>
Deferred tax assets:		
Impairment loss on trade and other receivables	<b>P 4,498,954</b>	P 1,448,938
Unamortized past service cost	<b>2,094,560</b>	2,239,694
Post-employment defined benefit obligation	<b>1,837,736</b>	2,780,363
Impairment loss on input VAT with TCC application	<b>1,007,846</b>	-
Unrealized foreign currency losses - net	<u>-</u>	<u>269,811</u>
	<u><b>9,439,096</b></u>	<u>6,738,806</u>
Deferred tax liabilities:		
Revaluation reserve on property, plant and equipment	( <b>28,399,125</b> )	( 28,399,125)
Unrealized foreign currency gains - net	( <b>724,320</b> )	-
	<u>( <b>29,123,445</b>)</u>	<u>( 28,399,125)</u>
Net Deferred Tax Liabilities	<u><b>(P 19,684,349)</b></u>	<u>(P 21,660,319)</u>

	<u>Statements of Comprehensive Income</u>					
	<u>Profit or Loss</u>			<u>Other Comprehensive Income</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Deferred tax assets:						
Impairment loss on applied tax credit certificate	(P <b>1,007,846</b> )	P -	P -	P -	P -	P -
Impairment loss on trade and other receivables	<b>816,305</b>	926,826	( 116,046)	-	-	-
Unrealized foreign currency losses - net	<b>269,811</b>	( 1,212,896)	193,966	-	-	-
Unamortized past service cost	<b>145,134</b>	340,896	( 102,989)	-	-	-
Post-employment defined benefit obligation	<u><b>164,154</b></u>	<u>41,461</u>	<u>462,724</u>	<u><b>778,473</b></u>	<u>( 1,189,623)</u>	<u>( 211,676)</u>
	<b>387,558</b>	96,287	437,655	<b>778,473</b>	( 1,189,623)	( 211,676)
Deferred tax liabilities:						
Unrealized foreign currency gains - net	<b>724,320</b>	-	-	-	-	-
Revaluation reserve on property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,180,963</u>	<u>-</u>
	<u><b>724,320</b></u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,180,963</u>	<u>-</u>
Net Deferred Tax Expense (Income)	<u><b>P 1,111,878</b></u>	<u>P 96,287</u>	<u>P 437,655</u>	<u><b>P 778,473</b></u>	<u>P 11,991,340</u>	<u>(P 211,676)</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 recognized for the years ended December 31, 2018, 2017 and 2016 as the RCIT was higher than MCIT in those years.

In 2018, 2017 and 2016, the Company claimed itemized deductions in computing for its income tax due.

## 16. 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, 2018, 2017 and 2016 and the outstanding balances as of December 31, 2018 and 2017 are as follows:

		Amounts of Transactions		
	Notes	2018	2017	2016
<b>Related Parties Under Common Ownership:</b>				
Sale of goods	16.1	P 33,866,747	P 31,465,549	P 28,592,037
Purchase of goods and services	16.2	62,100,195	54,631,659	74,416,158
Advances obtained	16.3	8,327,216	-	-
Advances granted	16.3	112,013	-	3,000,000
Lease of properties	16.4	3,187,967	3,809,413	2,321,540
Security deposit	16.4	( 493,945)	500,944	46,055
Purchase of land	9, 16.3	-	-	30,178,571
<b>Key Management Personnel – Compensation</b>				
	16.5	46,239,479	50,968,096	28,925,554
		Outstanding Balances		
	Note	2018	2017	
<b>Related Parties Under Common Ownership:</b>				
Sale of goods	16.1	P 13,356,313	P 11,009,995	
Purchase of goods and services	16.2	( 2,832,551)	( 2,166,723)	
Advances obtained	16.3	( 8,327,216)	-	
Advances granted	16.3	10,357	-	
Security deposit	16.4	260,969	754,914	
<b>Stockholders – Advances obtained</b>				
	16.3	( 46,057)	( 46,057)	

From January 1, 2018, the Company's outstanding receivables with related parties were subjected to impairment using PFRS 9's ECL model. These receivables have substantially the same risk characteristics as the trade receivables. As such, the expected loss rates for trade receivables are a reasonable approximation of the loss rates for receivables from related parties. The ECL model is presented in Note 20.2(b). There were no impairment losses recognized for these receivables from related parties in 2018 and 2017.

### ***16.1 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).

### ***16.2 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 2018 and 2017 are presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 11.1). The outstanding payables from purchase of goods and services are generally noninterest-bearing, unsecured and settled through cash within three months.

The Company acquires the services of Husky Plastics Corporation (Husky), a related party under common ownership, for the conversion of its pipe fittings. The Company provides its own raw materials to Husky for processing into finished goods. Once the processing is completed, the Company records the amount 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. The related outstanding payables for these services from Husky in 2018 and 2017 are presented as part of Trade payables under the Trade and Other Payables account in the statements of financial position (see Note 11.1). The outstanding payables from purchase of services are generally noninterest-bearing, unsecured and settled through cash within three months.

### ***16.3 Advances to/from Related Parties***

The Company grants/obtains unsecured, noninterest-bearing advances to/from its related parties under common ownership and certain stockholders. Included in this account are advances made for the purpose of a land acquisition. These advances are noninterest-bearing, unsecured and repayable either in cash or through offsetting. The ownership of the land previously owned by the related party was already transferred under the name of the Company in 2016 (see Note 9). No similar transactions occurred in 2018 and 2017. The outstanding balance of receivable from related party advances is presented as part of Other receivables under Trade and Other Receivables account in the 2018 statement of financial position (see Note 6). On the other hand, the outstanding balance of payable to stockholders is presented as Advances from Stockholders in the statements of financial position. The outstanding balances are noninterest-bearing, unsecured and repayable in cash, beyond 12 months from the end of the reporting period.

In 2018, the Company purchased certain machinery equipment amounting to P8.3 million, which was directly paid to the supplier by the related party in favor of the Company. The related payable arising from this transaction is noninterest-bearing, unsecured and payable in cash, and presented as Advances from a related party under Trade and Other Payables account in the 2018 statement of financial position (see Note 11.1). There was no similar transaction in 2017 and 2016.

#### ***16.4 Lease of Properties***

The Company entered into operating lease agreements with a related party under common ownership covering its office spaces and warehouse with lease terms ranging from two to five years. Rental expense related to this transaction is shown as part of Rentals under Other Operating Expenses in the statements of profit or loss (see Note 13). There are no unpaid rentals as of December 31, 2018 and 2017.

The related deposit as of December 31, 2018 and 2017, 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).

#### ***16.5 Key Management Personnel Compensation***

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Short-term benefits	<b>P 43,520,499</b>	P 48,046,456	P 26,669,592
Post-employment defined benefits	<u><b>2,718,980</b></u>	<u>2,921,640</u>	<u>2,255,962</u>
	<u><b>P 46,239,479</b></u>	<u>P 50,968,096</u>	<u>P 28,925,554</u>

### **17. EQUITY**

#### ***17.1 Capital Stock***

The Company's authorized capital stock is 1,300,000,000 shares at P1.00 par value per share. The issued and outstanding capital stock as of December 31, 2018 and 2017 consisted of 630,800,000 shares equivalent to P630.8 million.

On September 5, 2014, the BOD and the stockholders 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 PSE (see Note 1). The BOD's approval covered the planned initial public offering of 158.0 million unissued common shares of the Company.

As of December 31, 2018, 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 P1.80. The total number of stockholders is 36 and 26 as of December 31, 2018 and 2017, respectively. The public float lodged with PCD Nominee Corporation is counted only as one stockholder.

#### ***17.2 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 (see Note 1).

### 17.3 Retained Earnings

The information of cash dividends are summarized below.

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Amount</u>
March 9, 2018	April 12, 2018	May 9, 2018	P 25,232,000
March 9, 2018	June 26, 2018	July 11, 2018	31,540,000
March 24, 2017	April 12, 2017	May 10, 2017	25,232,000
March 24, 2017	June 26, 2017	July 11, 2017	31,540,000
April 25, 2016	May 10, 2016	May 27, 2016	12,616,000
April 25, 2016	May 10, 2016	May 27, 2016	18,924,000

All the foregoing dividend declarations are regular dividends except for the special dividends declaration on April 25, 2016 amounting to P18.9 million.

Subsequent to the reporting period, on March 12, 2019, the Company's BOD approved the declaration of cash dividends amounting to P56.8 million or P0.09 per share, payable in two tranches. The first tranche amounting to P31.5 million or P0.05 per share is a regular dividend to stockholders of record as of April 12, 2019, while the second tranche amounting to P25.2 million or P0.04 per share is a regular dividend, to stockholders as of July 9, 2019. Such dividends are payable on May 9, 2019 and July 23, 2019, respectively.

### 17.4 Share Buyback Program

On December 5, 2018, the Company's BOD approved the adoption of a Share Buyback Program whereby the Company is authorized to reacquire its capital stock from the public for an aggregate acquisition price of P100.0 million. There were no share buyback transactions yet as of December 31, 2018.

### 17.5 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity under Revaluation Reserves account, are shown below.

	<u>Property, Plant and Equipment (see Note 9)</u>	<u>Post-employment Defined Benefit Obligation (see Note 14)</u>	<u>Total</u>
Balance as of January 1, 2018	P 66,264,627	(P 5,126,787)	P 61,137,840
Remeasurements of post-employment defined benefit plan	-	2,594,909	2,594,909
Tax expense	-	( 778,473)	( 778,473)
Balance as of December 31, 2018	<b><u>P 66,264,627</u></b>	<b><u>(P 3,310,351)</u></b>	<b><u>P 62,954,276</u></b>
Balance as of January 1, 2017	P 35,509,046	(P 2,351,000)	P 33,158,046
Gain on revaluation of land	43,936,544	-	43,936,544
Remeasurements of post-employment defined benefit plan	-	( 3,965,410)	( 3,965,410)
Tax income (expense)	( 13,180,963)	1,189,623	( 11,991,340)
Balance as of December 31, 2017	<b><u>P 66,264,627</u></b>	<b><u>(P 5,126,787)</u></b>	<b><u>P 61,137,840</u></b>

## 18. EARNINGS PER SHARE

Basic EPS is computed as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Net profit	<b>P 117,602,818</b>	P 117,098,581	P 114,568,107
Divided by weighted average number of outstanding common shares	<u><b>630,800,000</b></u>	<u>630,800,000</u>	<u>630,800,000</u>
Basic and diluted EPS	<u><b>P 0.19</b></u>	<u>P 0.19</u>	<u>P 0.18</u>

The Company does not have dilutive potential common shares outstanding as of December 31, 2018, 2017 and 2016; hence, diluted EPS is equal to the basic EPS.

## 19. COMMITMENTS AND CONTINGENCIES

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

### *19.1 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 three years and includes annual escalation rate of 10.00%, while the leases for office space have terms of three to five 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>2018</u>	<u>2017</u>	<u>2016</u>
Within one year	<b>P 2,253,907</b>	P 3,740,629	P 3,258,995
After one year but not more than five years	<u><b>4,485,829</b></u>	<u>7,427,975</u>	<u>10,906,106</u>
	<u><b>P 6,739,736</b></u>	<u>P 11,168,604</u>	<u>P 14,165,101</u>

Rental expense for the years ended December 31, 2018, 2017 and 2016 amounted to P3.9 million, P4.4 million and P2.8 million, respectively (see Note 13).

The security deposits related to these lease agreements amounting to P0.4 million and P0.9 million as of December 31, 2018 and 2017, respectively, are presented as part of Security deposits under the Other Non-current Assets account in the statements of financial position (see Note 10).

### *19.2 Unused Credit Lines*

The Company had P292.0 million and P320.0 million of unused credit lines of the approved Omnibus Line of Credit from a local bank granted as of December 31, 2018 and 2017, respectively.

### **19.3 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, 2018 and 2017, 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.

## **20. 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 21. The main types of risks are market risk, credit risk and liquidity risk.

The Company's risk management is coordinated by its BOD, and focuses on actively securing the Company's closely short-to-medium term cash flows by minimizing the exposure to financial markets.

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

### **20.1 Market Risk**

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

#### **(a) Foreign Currency Risk**

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in United States (U.S.) dollars. The Company also holds U.S. dollar-denominated cash and cash equivalents.

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

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

	<u>2018</u>	<u>2017</u>
Financial assets	<b>P 108,012,155</b>	P 91,458,868
Financial liabilities	<b>( 2,409,750)</b>	( 12,420,662)
Net exposure	<b><u>P 105,602,405</u></b>	<u>P 79,038,206</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 +/- 12.96% and +/- 10.77% change of the Philippine peso/ U.S. dollar exchange rate for the years ended December 31, 2018 and 2017, 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 12.96% and 10.77% at December 31, 2018 and 2017, profit before tax for the years ended December 31, 2018 and 2017 would have decreased by P13.7 million and P8.5 million, respectively. Conversely, if the Philippine peso has weakened against the U.S. dollar by the same percentages at December 31, 2018 and 2017, profit before tax for the years ended December 31, 2018 and 2017 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, 2018 and 2017, 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 +/- 2.11% and +/- 0.47% in 2018 and 2017, 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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<u>2.11%</u>	<u>0.47%</u>	<u>2.11%</u>	<u>0.47%</u>
Effect in profit before tax	P 1,713,999	P 424,100	(P 1,713,999)	(P 424,100)
Effect in equity	1,199,799	296,870	( 1,199,799)	( 296,870)

**20.2 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>2018</u>	<u>2017</u>
Cash and cash equivalents	5	<b>P 81,388,706</b>	P 90,965,672
Trade receivables - net	6	<b>194,858,856</b>	228,167,353
Security deposits	10	<b><u>2,659,002</u></b>	<u>3,151,179</u>
		<b><u>P 278,906,564</u></b>	<u>P 322,284,204</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).

(a) *Cash*

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

(b) *Trade and Other Receivables*

The Company applies the PFRS 9 simplified approach in measuring ECL which uses a lifetime expected loss allowance for all trade receivables and other receivables. Advances to officers and employees have been assessed separately and individually wherein management determined that there is no required ECL to be recognized since collections are made on a monthly basis or through salary deductions within a period of one year or less.

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

The expected loss rates are based on the payment and aging profiles over a period of 36 months before December 31, 2018 or January 1, 2018, respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the inflation rate in the Philippines to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The Company identifies a default when the receivables become credit impaired or when the customer has not able to settle the receivables within the normal credit terms of 30 to 60 days, depending on the terms with customers; hence, these receivables were already considered as past due on its contractual payment. In addition, the Company considers qualitative assessment in determining default such as in instances where the customer is unlikely to pay its obligations and is deemed to be in significant financial difficulty.

For 2017 (under PAS 39), management assessed that the past due trade and other receivables over 90 or 120 days, depending on terms with customers, but less than one year amounting to P16.8 million as of December 31, 2017, are not impaired as of those dates.

On that basis, the loss allowance as at December 31, 2018 and January 1, 2018 (upon adoption of PFRS 9) was determined based on months past due, for trade receivables, excluding advances to officers and employees) as follows:

	Not more than 3 months	More than 3 months but not more than 4 months	More than 4 months	Total
<b>December 31, 2018</b>				
Expected loss rate	0.00%	76.15%	100.00%	
Gross carrying amount	P 194,486,718	P 1,560,366	P 13,808,286	P 209,855,370
Loss allowance	-	1,188,228	13,808,286	14,996,514
<b>January 1, 2018</b>				
Expected loss rate	0.00%	74.18%	100.00%	
Gross carrying amount	P 215,057,762	P 859,268	P 17,080,117	P 232,997,147
Loss allowance	-	637,414	17,080,117	17,717,531

A reconciliation of the closing allowance for impairment of trade and other receivables as at December 31, 2018 to the opening loss allowance is presented below (see Note 6).

#### **December 31, 2018**

Balance at beginning of year	P 17,717,531
Recovery	( 2,604,476)
Write-offs	( 116,541)
Balance at end of year	<b><u>P 14,996,514</u></b>

#### **January 1, 2018**

Balance under PAS 39	P 4,829,794
Additional lifetime ECL	<u>12,887,737</u>
Balance under PFRS 9	<b><u>P 17,717,531</u></b>

#### *(c) Security deposits*

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

### ***20.3 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.

2018					
Current			Non-current		
Within		Six to 12		One to Five	
Six Months		Months		Years	
Trade and other payables (except Advances from customers and tax-related payables)	P 154,474,930	P -	P -		
Loans and mortgage payables	29,734,216	1,036,435	4,065,991		
Advances from stockholders	-	-	46,057		
	<u>P 184,209,146</u>	<u>P 1,036,435</u>	<u>P 4,112,048</u>		

2017					
Current			Non-current		
Within		Six to 12		One to Five	
Six Months		Months		Years	
Trade and other payables (except Advances from customers and tax-related payables)	P 125,745,505	P -	P -		
Mortgage payables	796,569	955,867	2,779,175		
Advances from stockholders	-	-	46,057		
	<u>P 126,542,074</u>	<u>P 955,867</u>	<u>P 2,825,232</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.

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

### 21.1 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.

		2018		2017	
Notes		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>					
Financial assets at amortized cost (previously as loans and receivables):					
Cash and cash equivalents	5	P 81,388,706	P 81,388,706	P 90,965,672	P 90,965,672
Trade and other receivables - net	6	194,858,856	194,858,856	228,167,353	228,167,353
Security deposits	10	2,659,002	2,659,002	3,151,179	3,151,179
		<u>P 278,906,564</u>	<u>P 278,906,564</u>	<u>P 322,284,204</u>	<u>P 322,284,204</u>
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Trade and other payables (except Advances from customers and tax-related payables)	11	P 154,474,930	P 154,474,930	P 125,745,505	P 125,745,505
Loans and mortgage payables	11	33,515,025	33,515,025	4,233,145	4,233,145
Advances from stockholders	16	46,057	46,057	46,057	46,057
		<u>P 188,036,012</u>	<u>P 188,036,012</u>	<u>P 130,024,707</u>	<u>P 130,024,707</u>

The Company's management considers that the carrying values of the foregoing financial assets and financial liabilities approximate their fair values either because these instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

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 20.

### ***21.2 Offsetting Financial Assets and Financial Liabilities***

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Company and counterparties (i.e., related parties) allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis (see Note 20). 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.

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

### ***22.1 Fair Value Hierarchy***

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

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

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

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

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

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

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

## ***22.2 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 21.1).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2018</u></b>				
<b><i>Financial assets:</i></b>				
Cash and cash equivalents	P 81,388,706	P -	P -	P 81,388,706
Trade receivables - net	-	-	194,858,856	194,858,856
Security deposits	-	-	2,659,002	2,659,002
	<b><u>P 81,388,706</u></b>	<b><u>P -</u></b>	<b><u>P 197,517,858</u></b>	<b><u>P 278,906,564</u></b>
<b><i>Financial liabilities:</i></b>				
Trade and other payables	P -	P -	P 154,474,930	P 154,474,930
Loans and mortgage payables	-	-	33,515,025	33,515,025
Advances from stockholders	-	-	46,057	46,057
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 188,036,012</u></b>	<b><u>P 188,036,012</u></b>
<b><u>December 31, 2017</u></b>				
<b><i>Financial assets:</i></b>				
Cash and cash equivalents	P 90,965,672	P -	P -	P 90,965,672
Trade receivables - net	-	-	228,167,353	228,167,353
Security deposits	-	-	3,151,179	3,151,179
	<b><u>P 90,965,672</u></b>	<b><u>P -</u></b>	<b><u>P 231,318,532</u></b>	<b><u>P 322,284,204</u></b>
<b><i>Financial liabilities:</i></b>				
Trade and other payables	P -	P -	P 125,745,505	P 125,745,505
Mortgage payables	-	-	4,233,145	4,233,145
Advances from stockholders	-	-	46,057	46,057
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 130,024,707</u></b>	<b><u>P 130,024,707</u></b>

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

The fair value of the Company's land amounting to P158.5 million as of December 31, 2018 and 2017 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 2018 and 2017.

## **23. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total liabilities	<b>P 240,005,675</b>	P 181,768,754	P212,660,780
Total equity	<b><u>1,074,377,987</u></b>	<u>1,020,752,149</u>	<u>932,445,774</u>
Debt-to-equity ratio	<b><u>0.22 : 1.00</u></b>	<u>0.18 : 1.00</u>	<u>0.23 : 1.00</u>

There were no internally and externally imposed capital requirements to be complied with as of December 31, 2018 and 2017.

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

## 24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR

Presented below and in the succeeding pages is the supplementary information which is required by the BIR under Revenue Regulation (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and licenses fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

### (a) Output VAT

In 2018, the Company declared output VAT as follows:

	<u>Tax Base</u>	<u>Output VAT</u>
Sale of goods:		
Taxable sales	P 877,882,169	P 105,345,860
Zero-rated sales	<u>309,304,099</u>	<u>-</u>
	<u>P1,187,186,268</u>	<u>P 105,345,860</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, as amended.

### (b) Input VAT

The movements in input VAT in 2018 are presented below.

Balance at beginning of year	P 78,228,862
Goods other than capital goods	64,586,865
VAT on importation of goods	32,772,391
Services lodged under other accounts	15,994,184
Capital goods subject to amortization	3,288,384
Change in deferred input VAT	1,823,053
Capital goods not subject to amortization	8,813
Applied against output VAT*	( <u>105,345,860</u> )
	91,356,692
Application for TCC	( <u>8,875,140</u> )
Balance at end of year	<u>P 82,481,552</u>

\* Includes balance applied against output VAT for December 2018.

The outstanding balance of input VAT is presented under the Prepayments and Other Current Assets account in the 2018 statement of financial position (see Note 8).

Deferred input VAT amounting to P9,162,370 pertains to the unamortized input VAT on purchases of capital goods exceeding P1.0 million. Deferred input VAT is 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 account in the 2018 statement of financial position (see Note 10).



(c) *Taxes on Importation*

In 2018, the total landed cost of the Company's importations for use in business amounted to P294,455,345. This also includes customs duties and tariff fees totalling to P 3,197,504 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 2018 which are subject to excise tax.

(e) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2018 is presented below.

	<u>Note</u>	
Bank transactions		P 1,756,181
Others		<u>319,057</u>
	24(f)	<u>P 2,075,238</u>

(f) *Taxes and Licenses*

The composition of Taxes and Licenses account in 2018 is shown below.

	<u>Note</u>	
Registration and license fees		P 5,015,826
DST	24(e)	2,075,238
Real property tax		1,812,667
Deficiency tax	24(h)	256,168
Residence tax		15,633
Miscellaneous		<u>5,300</u>
		<u>P 9,180,832</u>

The amount of Taxes and licences is presented as part of Other Operating Expenses account in the 2018 statement of profit or loss (see Note 13).

(g) *Withholding Taxes*

The details of total withholding taxes in 2018 are shown below.

Compensation and benefits	P 9,818,986
Expanded	8,746,230
Final tax on dividends	<u>5,498,458</u>
	<u>P 24,063,674</u>

(b) *Deficiency Tax Assessments*

In January 2018, the Company paid deficiency taxes and interest on VAT amounting to P256,168 and P51,225, respectively, for the taxable year 2015 [see Note 24(f)]. The interest expense is recognized as part of Finance Costs in the 2018 statement of profit or loss.

As of December 31, 2018, 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.