

COVER SHEET

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S.E.C. Registration Number

CROWN ASIA CHEMICALS CORPORATION

(Company's Full Name)

KM 33 MC ARTHUR HIGHWAY BOTUKTUKAN GUIGUINTO BULACAN

TITA P. VILLANUEVA

Contact Person

3 4 1 3 8 0 3 2

Company Telephone Number

1 2 3 1

Month Day Fiscal Year

A F S

FORM TYPE

0 5 1 4

Month Day Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

6 6

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes



# **CROWN ASIA CHEMICALS CORPORATION**

Km 33 Mc Arthur Highway, Tuktukan Guiguinto, Bulacan

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of **CROWN ASIA CHEMICALS CORPORATION** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended **December 31, 2020**, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

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

  
**WALTER H. VILLANUEVA**  
Chairman of the Board and President

  
**TITA P. VILLANUEVA**  
SVP/Chief Financial Officer

Signed this \_\_\_\_\_ day of **MAR 12 2021**

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of MAR 12 2021  
2021 affiant (s) exhibiting to me their Community Tax Certificates , as follows:

<b>NAMES</b>	<b>CTC NO.</b>	<b>DATE/PLACE OF ISSUE</b>
Walter H. Villanueva	29134832	02/04/2021 Valenzuela City
Tita P. Villanueva	29134834	02/04/2021 Valenzuela City

NOTARY PUBLIC

Doc. No. 130  
Page No. 26  
Book No. 224  
Series of 2021.

**ATTY. JASON G. DE BELEN**  
Roll No. 36259  
Adm. NP-019 Notary Public (2020-2021)  
Unit M Panay Commercial Building  
No. 7 Panay Ave. cor. Sgt. Borromeo St. Q.C.  
(BP AR No. 34918187; QC 1-4-2021  
PTR No. 0598847; QC 1-4-2021  
MCLE VI-0022012: 4-14-22



# P&A Grant Thornton

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## Report of Independent Auditors

**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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2020 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 (P&A) is the Philippine member firm of Grant Thornton International Ltd

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



***Emphasis of Matter***

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Company's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

***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 the Company's business performance. Relative to this, there is a significant risk that the amount of revenue reported 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. For the year ended December 31, 2020, the Company's total revenues amounted to P1,117.7 million.

In our view, revenue recognition is significant to our audit because of the inherent risk of material misstatement involved and the materiality of the amount of recorded revenues which impact the Company's profitability.

The Company's disclosures about its revenue recognition policy and breakdown are included in Notes 2 and 4.

***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, *Revenue from Contracts with Customers*;
- testing of design and operating effectiveness of internal controls related to the Company's sale and receipts processes, which include inquiry and observation, and test, on a sampling basis, revenue transactions during the year;
- 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;



- 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;
- confirming receivables, on sample basis, using positive confirmations, performing alternative procedures for non-responding customers, 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; and,
- 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.

**(b) Application of Expected Credit Loss Methodology and Recoverability of Receivables**

*Description of the Matter*

As of December 31, 2020, the Company's receivables, net of allowance for credit losses, amounting to P276.0 million represent 27% and 17% of total current assets and total assets, respectively. The determination of allowance for credit losses 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) methodology 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 21 to the financial statements, include the application of the ECL methodology 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 credit losses are included in Note 6 while the related disclosures on credit risk are presented in Note 21.

*How the Matter was Addressed in the Audit*

Our audit procedures to determine the appropriateness of ECL methodology applied 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 methodology 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 methodology, 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 2020 in accordance with the requirements of PFRS 9.

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

*Description of the Matter*

The total inventories of P469.2 million as of December 31, 2020 represents 45% and 29% of total current assets and total assets of the Company, respectively. 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 third parties. Relative to these, we determined that existence and valuation of inventories are a key audit matter of our audit.

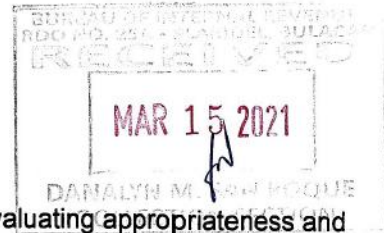
The Company's disclosures about inventories and the related inventory valuation policies are included in Notes 7 and 2, respectively.

*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 count 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, as well as the related controls of the Company in relation to the inventory count; 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; examining sample inventory items to test count against inventory records; clearing exceptions, if any, with appropriate personnel; and, projecting errors to the population;
- confirming inventories held by third parties and observing physical inventory count conducted; 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 selected 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, 2020, 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, 2020 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.



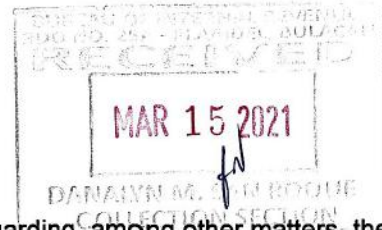


***Auditors' Responsibilities for the Audit of the Financial Statements***

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, 2020 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with 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 audit resulting in this independent auditors' report is John Endel S. Mata.

### **PUNONGBAYAN & ARAULLO**

**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347  
TIN 257-622-627  
PTR No. 8533233, January 4, 2021, Makati City  
SEC Group A Accreditation  
Partner - No. 121347-SEC (until Dec. 31, 2023)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 2, 2021

**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2020 AND 2019**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	P 188,196,658	P 56,456,379
Trade and other receivables - net	6	276,007,104	255,566,280
Inventories	7	469,233,996	495,990,475
Prepayments and other current assets	8	<u>106,582,764</u>	<u>118,512,011</u>
Total Current Assets		<u>1,040,020,522</u>	<u>926,525,145</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment - net	9	566,031,393	586,635,278
Right-of-use assets - net	12	21,020,024	43,436,355
Other non-current assets - net	10	<u>9,632,333</u>	<u>11,950,944</u>
Total Non-current Assets		<u>596,683,750</u>	<u>642,022,577</u>
<b>TOTAL ASSETS</b>		<b><u>P 1,636,704,272</u></b>	<b><u>P 1,568,547,722</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	11	P 262,342,133	P 281,245,088
Loans and mortgage payables	11	2,480,902	3,160,034
Lease liabilities	12	3,466,766	4,621,594
Income tax payable		<u>16,171,614</u>	<u>-</u>
Total Current Liabilities		<u>284,461,415</u>	<u>289,026,716</u>
<b>NON-CURRENT LIABILITIES</b>			
Mortgage payables	11	4,561,326	6,949,617
Lease liabilities	12	19,237,768	39,565,489
Post-employment defined benefit obligation	15	48,856	6,832,444
Deferred tax liabilities - net	16	49,687,926	47,070,642
Advances from a stockholder	17	<u>46,057</u>	<u>46,057</u>
Total Non-current Liabilities		<u>73,581,933</u>	<u>100,464,249</u>
Total Liabilities		<u>358,043,348</u>	<u>389,490,965</u>
<b>EQUITY</b>			
Capital stock	18	630,800,000	630,800,000
Treasury shares, at cost		( 41,096,031 )	( 37,462,971 )
Additional paid-in capital		52,309,224	52,309,224
Revaluation reserves		131,489,321	125,057,544
Retained earnings		<u>505,158,410</u>	<u>408,352,960</u>
Total Equity		<u>1,278,660,924</u>	<u>1,179,056,757</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 1,636,704,272</u></b>	<b><u>P 1,568,547,722</u></b>



*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF PROFIT OR LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2020	2019	2018
REVENUES	4, 17	P 1,117,688,552	P 1,433,402,683	P 1,187,186,268
COST OF GOODS SOLD	13	772,150,288	1,040,006,142	854,656,351
GROSS PROFIT		345,538,264	393,396,541	332,529,917
OTHER OPERATING EXPENSES	14	171,670,539	186,340,786	167,057,413
OTHER INCOME (CHARGES)				
Finance costs	11, 12, 15	( 4,765,295 )	( 3,869,838 )	( 1,190,248 )
Foreign currency gains (losses) - net	21	1,281,674	( 7,074,562 )	3,328,278
Finance income	5	357,614	640,176	522,880
Impairment loss on applied tax credit certificate	8	-	( 5,515,653 )	( 3,359,487 )
Other income	9, 12	2,550,327	1,112,138	3,437,020
		( 575,680 )	( 14,707,739 )	2,738,443
PROFIT BEFORE TAX		173,292,045	192,348,016	168,210,947
TAX EXPENSE	16	52,042,956	55,933,363	50,608,129
NET PROFIT		P 121,249,089	P 136,414,653	P 117,602,818
BASIC AND DILUTED EARNINGS PER SHARE	19	P 0.20	P 0.22	P 0.19

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>NET PROFIT</b>		<b>P 121,249,089</b>	<b>P 136,414,653</b>	<b>P 117,602,818</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
<b>Items that will not be reclassified subsequently to profit or loss</b>				
Remeasurements of post-employment defined benefit plan	15, 18	9,188,253	( 1,023,045 )	2,594,909
Revaluation increment on land	9, 18	-	89,742,000	-
Tax expense	16, 18	( 2,756,476 )	( 26,615,687 )	( 778,473 )
		<u>6,431,777</u>	<u>62,103,268</u>	<u>1,816,436</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 127,680,866</b>	<b>P 198,517,921</b>	<b>P 119,419,254</b>

*See Notes to Financial Statements.*



**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Note	Capital Stock	Treasury Shares	Additional Paid-in Capital	Retained Earnings	Revaluation Reserves	Total Equity
Balance at January 1, 2020		630,800,000	( 37,462,971 )	52,309,224	408,352,960	125,057,544	1,179,056,757
Acquisition of shares during the year	18	-	( 3,633,060 )	-	-	-	( 3,633,060 )
Cash dividends	18	-	-	-	( 24,443,639 )	-	( 24,443,639 )
Total comprehensive income for the year		-	-	-	121,249,089	6,431,777	127,680,866
Balance as at December 31, 2020		<u>630,800,000</u>	<u>( 41,096,031 )</u>	<u>52,309,224</u>	<u>505,158,410</u>	<u>131,489,321</u>	<u>1,278,660,924</u>
Balance at January 1, 2019		630,800,000	P -	52,309,224	328,314,487	62,954,276	1,074,377,987
Acquisition of shares during the year	18	-	( 37,462,971 )	-	-	-	( 37,462,971 )
Cash dividends	18	-	-	-	( 56,376,180 )	-	( 56,376,180 )
Total comprehensive income for the year		-	-	-	136,414,653	62,103,268	198,517,921
Balance at December 31, 2019		<u>630,800,000</u>	<u>( 37,462,971 )</u>	<u>52,309,224</u>	<u>408,352,960</u>	<u>125,057,544</u>	<u>1,179,056,757</u>
Balance at January 1, 2018		630,800,000	P -	52,309,224	267,483,669	61,137,840	1,011,730,733
Cash dividends	18	-	-	-	( 56,772,000 )	-	( 56,772,000 )
Total comprehensive income for the year		-	-	-	117,602,818	1,816,436	119,419,254
Balance at December 31, 2018		<u>630,800,000</u>	<u>P -</u>	<u>52,309,224</u>	<u>328,314,487</u>	<u>62,954,276</u>	<u>1,074,377,987</u>

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018**  
*(Amounts in Philippine Pesos)*

	Notes	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax		P 173,292,045	P 192,348,016	P 168,210,947
Adjustments for:				
Depreciation and amortization	9, 10, 12	42,261,701	40,349,239	31,476,494
Interest expense	11, 12, 15	4,765,295	3,842,961	1,139,025
Unrealized foreign currency losses (gains) - net		( 2,901,855 )	651,733	( 2,414,399 )
Gain on modification and pre-termination of leases	12	( 1,070,444 )	-	-
Gain on sale of equipment	9	( 515,000 )	( 965,060 )	( 820,000 )
Finance income	5	( 357,614 )	( 640,176 )	( 522,880 )
Impairment loss on applied tax credit certificate	8	-	5,515,653	3,359,487
Operating profit before working capital changes		215,474,128	241,102,366	200,428,674
Decrease (increase) in trade and other receivables		( 20,393,446 )	( 50,845,019 )	16,691,854
Decrease (increase) in inventories		26,756,479	( 38,289,791 )	( 88,146,052 )
Decrease (increase) in prepayments and other current assets		3,309,920	( 26,387,456 )	( 32,564,781 )
Decrease (increase) in other non-current assets		2,253,968	10,197,588	( 26,301,153 )
Increase in trade and other payables		7,339,010	92,498,177	25,550,401
Increase (decrease) in post-employment defined benefit obligation		1,863,931	( 634,103 )	( 946,588 )
Cash generated from operations		236,603,990	227,641,762	94,712,355
Cash paid for income taxes		( 27,323,177 )	( 52,227,780 )	( 38,707,211 )
Interest received		289,584	535,725	443,536
Net Cash From Operating Activities		209,570,397	175,949,707	56,448,680
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	9	( 38,387,853 )	( 71,809,706 )	( 38,324,203 )
Proceeds from disposal of equipment	9	1,573,501	1,387,083	950,732
Net Cash Used in Investing Activities		( 36,814,352 )	( 70,422,623 )	( 37,373,471 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payments of loans and mortgage payables	11	( 38,075,046 )	( 80,840,792 )	( 6,908,120 )
Proceeds from loans	11	35,000,000	50,000,000	33,000,000
Dividends paid	18	( 24,443,639 )	( 56,376,180 )	( 56,772,000 )
Repayments of lease liabilities	12	( 6,708,341 )	( 4,043,003 )	-
Acquisition of treasury shares	18	( 3,633,060 )	( 37,462,971 )	-
Interest paid for loans and mortgage payables	11	( 1,321,392 )	( 2,388,197 )	( 739,619 )
Net Cash Used in Financing Activities		( 39,181,478 )	( 131,111,143 )	( 31,419,739 )
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		( 1,834,288 )	651,732	2,767,564
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>131,740,279</b>	<b>( 24,932,327 )</b>	<b>( 9,576,966 )</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>56,456,379</b>	<b>81,388,706</b>	<b>90,965,672</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P 188,196,658</b>	<b>P 56,456,379</b>	<b>P 81,388,706</b>

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

- (i) In 2019, the Company's land was revalued resulting in an increase in the value of such property amounting to P89.7 million (see Note 9).
- (ii) The Company recognized right-of-use assets and the corresponding lease liabilities with outstanding amount of P43.4 million and P44.2 million, respectively, as of December 31, 2019, of which portion of such lease arrangements were modified and pre-terminated in 2020 (see Note 12).
- (iii) In 2019, deposit for future investment amounting to P25.8 million was applied as payment for a purchase of land. As of December 31, 2019, the unpaid portion relating to the purchase amounts to P21.6 million, which was fully settled in 2020 (see Note 11).
- (iv) In 2019 and 2018, the Company acquired a certain transportation equipment amounting to P7.4 million and P3.2 million, respectively, through bank loan financing (see Notes 9 and 11). In 2018, the Company purchased a certain machinery and equipment amounting to P8.3 million, which was directly paid to the supplier by the related party in favor of the Company. However, in 2019 the same machinery and equipment were disposed of and sold directly to the related party and the outstanding amount of P8.3 million was applied against the Company's receivable from the sale of such asset (see Notes 9 and 17).

*See Notes to Financial Statements.*

**CROWN ASIA CHEMICALS CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2020, 2019 and 2018**  
*(Amounts in Philippine Pesos)*

**1. GENERAL INFORMATION**

***1.1 Corporate Information***

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

The Company's shares were listed in the Philippine Stock Exchange (PSE) on April 27, 2015 (see Note 18.1).

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, 2020 (including the comparative financial statements as of December 31, 2019 and for the years ended December 31, 2019 and 2018) were authorized for issue by the Company's Board of Directors (BOD) on March 2, 2021.

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

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Company's business operations.

The following are the impact of the COVID-19 pandemic to the Company's business:

- temporary cessation of operations from March 17, 2020 to May 17, 2020;
- decline in total actual revenues and net income in 2020 by 22% and 11%, respectively, compared to that of 2019;
- decline in certain operating expenses incurred including salaries and wages and utilities due to the temporary cessation of operations;
- recognition of impairment loss on trade receivables amounting to P2.2 million; and,
- additional operating expenses were incurred to ensure the health and safety of its employees and customers such as the frequent disinfection of facilities, giving of protective equipment such as face masks, face shields and alcohol, shuttle services and free lodging for employees residing outside Metro Manila.



In response to this matter, the Company has taken the following actions:

- established a dedicated risks mitigation team covering finance, operations, sales and marketing;
- extended payment terms for certain customers while negotiated for longer payment terms from suppliers;
- communicated with suppliers on mitigating actions to ensure on-time delivery;
- set new lead time for the delivery of goods during the quarantine period;
- issued a memo to all employees on how to prevent spread of COVID-19 in the workplace, and re-arranged work areas to maximize distance between employees; and,
- implemented flexible working arrangements.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, it projects that the Company would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### ***2.1 Basis of Preparation of Financial Statements***

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

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

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Company presents the statement of comprehensive income separate from the statement of profit or loss.

The Company presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

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

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

**2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2020 that are Relevant to the Company*

The Company adopted for the first time the following pronouncements, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

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

- (i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Company's financial statements.

- (ii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*. The amendments provide a clearer definition of ‘material’ in PAS 1 by including the concept of ‘obscuring’ material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity’s own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term ‘material’ to ensure consistency. The application of these amendments had no significant impact on the Company’s financial statements.
- (iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Company’s financial statements.

(b) *Effective in 2020 that are not Relevant to the Company*

Among the amendments to PFRS that are mandatorily effective for annual periods beginning on or after January 1, 2020, only PFRS 3 (Amendments), *Business Combinations – Definition of a Business* is not relevant to the Company’s financial statements.

(c) *Effective Subsequent to 2020 but not Adopted Early*

There are pronouncements effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the relevant pronouncements below and in the succeeding page in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Company’s financial statements.

- (i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.
- (ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

- (iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).
- (iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:
  - a. PFRS 9 (Amendments), *Financial Instruments – Fees in the ‘10 per cent’ Test for Derecognition of Liabilities*. The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
  - b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.
- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

### ***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 as disclosed in Note 4, which represent the main products provided by the Company.

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

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

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

## 2.4 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 and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at amortized cost, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss. Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets at amortized cost is the only classification applicable to the Company. The classification and measurement of the Company's relevant financial assets are described 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 solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

(b) *Impairment of Financial Assets*

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

The Company applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance for all trade receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Company uses its historical experience, external indicators and forward-looking information to calculate the ECL using a provision matrix. The Company also assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due [see Note 21.2(b)].

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

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

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

(c) *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, supplies and packaging materials is the current replacement cost.

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

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

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

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

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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

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

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

Following initial recognition at cost, land is carried at revalued amount which is the fair value at the date of the revaluation as determined by independent appraisers. Revalued amount is the fair market value determined based on appraisal by external professional valuer once every two years or more frequently if market factors indicate a material change in fair value (see Note 23.3).

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

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

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 life of 10 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, Lease Liabilities and Advances from a Stockholder, are recognized when the Company becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense under the caption Finance Costs in the statement of profit or loss.

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

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

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

The measurement of lease liabilities is discussed in Note 2.13(i).

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.

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

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

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

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

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

The Company 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(b).

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(c)].

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

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

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

#### *(i) Accounting for Leases in Accordance with PFRS 16 (2020 and 2019)*

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Company assesses whether the contract meets three key evaluations which are whether:

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

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

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

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

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

(ii) *Accounting for Leases in Accordance with PAS 17 (2018)*

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

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

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

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

### ***2.16 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 employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued expenses under Trade and Other 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 a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest), are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Finance Costs 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 current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

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

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

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

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

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities for land that is measured using the fair value model (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 deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax effect is also recognized in other comprehensive income or directly in equity, respectively.

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

### ***2.19 Related Party Transactions and Relationships***

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

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

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

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

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

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

### ***2.20 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.

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

Revaluation reserves include the fair value gains and losses due to the revaluation of land and remeasurements of post-employment defined benefit plan [see Note 2.7 and 2.16(b)].

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 any 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 Lease Term of Contracts with Renewal and Termination Options (2020 and 2019)*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and such provision of the contract is not subject to mutual agreement of both parties.

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

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

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

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

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

*(c) Determination of Transaction Price*

The transaction price, which excludes any amounts collected on behalf of third parties (e.g., VAT), is considered receivable to the extent of products sold with consideration on the right of return, if applicable (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.

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

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

The provision matrix is based on the Company's historical observed default rates. The Company's management intends to regularly calibrate (i.e., on an annual basis) the matrix to consider the historical credit loss experience with forward-looking information (i.e., forecast economic conditions). Details about the ECL on the Company's trade and other receivables are disclosed in Note 21.2(b).

(e) *Determination of Cost of Inventories*

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

(f) *Distinction between Operating and Finance Leases (2018)*

The Company has entered into various lease contracts 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.

(g) *Recognition of Provisions and Contingencies*

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

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities (2020 and 2019)*

The Company measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Company's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 21.2(b).

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

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the dates the estimates are made. Even though the Company's core business is not continuously subject to rapid technological changes which may cause inventory obsolescence, future realization of the carrying amounts of inventories 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 2020, 2019 and 2018 based on management's assessment.

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

The Company estimates the useful lives of property, plant and equipment, right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment, right-of-use assets and intangible assets (Trademarks under Other Non-current Assets account) are presented in Notes 9, 12 and 10, respectively. Based on management's assessment as at December 31, 2020 and 2019, there is no change in estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in the factors mentioned above.

(e) *Measurement of Fair Value of Land*

The Company's land is carried at revalued amount at the end of the reporting period. In determining its fair value, the Company engages the services of professional and independent appraisers applying the relevant valuation methodology (see Note 23.3).

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

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

(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, 2020 and 2019 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 16.

(g) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of property, plant and equipment, right-of-use assets, intangible assets and other non-financial assets is discussed in Note 2.15. 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 2020, 2019 and 2018, except for the impairment loss recognized on the Company's applied tax credit certificate (TCC) in 2019 and 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 15.2.

## 4. SEGMENT REPORTING

### 4.1 *Business Segments*

The Company is organized into business units based on its products for purposes of management assessment of each unit. For management purposes, the Company is organized into 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, Cebu 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 property, plant and equipment, trade and other receivables and inventories, net of allowances and provisions. Segment assets do not include deferred taxes. Segment liabilities, however, were not presented as this measure is not regularly being provided to the chief operating decision-maker (see Note 4.5).

#### **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, 2020</u></b>				
<b>Statement of Profit or Loss</b>				
Revenues	P 570,578,751	P 534,699,877	P 12,409,924	P1,117,688,552
Costs and Other Operating Expenses				
Cost of goods sold (excluding depreciation and amortization)	440,574,323	302,307,329	5,894,956	748,776,608
Depreciation and amortization	6,874,138	26,182,407	5,197,752	38,254,297
Other operating expenses (excluding depreciation and amortization)	<u>34,827,684</u>	<u>77,625,564</u>	<u>4,309,274</u>	<u>116,762,522</u>
	<u>482,276,145</u>	<u>406,115,300</u>	<u>15,401,982</u>	<u>903,793,427</u>
Other Charges (Income) – net	<u>3,469,541</u>	<u>( 2,891,243)</u>	<u>( 401,606)</u>	<u>176,692</u>
Segment Operating Profit (Loss)	<b><u>P 84,833,065</u></b>	<b><u>P 131,475,820</u></b>	<b><u>(P 2,590,452)</u></b>	<b><u>P 213,718,433</u></b>
<b><u>December 31, 2020</u></b>				
<b>Statement of Financial Position</b>				
Segment assets	<b><u>P 309,792,057</u></b>	<b><u>P 882,236,991</u></b>	<b><u>P 145,697,994</u></b>	<b><u>P1,337,727,042</u></b>

	<u>Compounds</u>	<u>Pipes</u>	<u>Roofing</u>	<u>Total</u>
<u>For the year ended December 31, 2019</u>				
Statement of Profit or Loss				
Revenues	<u>P 826,053,317</u>	<u>P 590,651,808</u>	<u>P 16,697,558</u>	<u>P1,433,402,683</u>
Costs and Other Operating Expenses				
Cost of goods sold (excluding depreciation and amortization)	671,899,790	340,275,996	3,325,075	1,015,500,861
Depreciation and amortization	6,315,260	25,981,093	4,388,672	36,685,025
Other operating expenses (excluding depreciation and amortization)	<u>47,368,829</u>	<u>88,812,556</u>	<u>4,483,813</u>	<u>140,665,198</u>
	<u>725,583,879</u>	<u>455,069,645</u>	<u>12,197,560</u>	<u>1,192,851,084</u>
Other Charges – net	<u>12,119,383</u>	<u>1,050,444</u>	<u>842,381</u>	<u>14,012,208</u>
Segment Operating Profit	<u>P 88,350,055</u>	<u>P 134,531,719</u>	<u>P 3,657,617</u>	<u>P 226,539,391</u>
<u>December 31, 2019</u>				
Statement of Financial Position				
Segment assets	<u>P 398,724,817</u>	<u>P 885,091,318</u>	<u>P 143,890,083</u>	<u>P1,427,706,218</u>
<u>For the year ended December 31, 2018</u>				
Statement of Profit or Loss				
Revenues	<u>P 682,227,418</u>	<u>P 495,786,523</u>	<u>P 9,172,327</u>	<u>P1,187,186,268</u>
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)	<u>40,787,494</u>	<u>83,529,075</u>	<u>4,513,764</u>	<u>128,830,333</u>
	<u>577,153,062</u>	<u>395,532,405</u>	<u>11,666,369</u>	<u>984,351,836</u>
Other Charges (Income) – net	<u>( 2,848,304)</u>	<u>194,704</u>	<u>( 115,567)</u>	<u>( 2,769,167)</u>
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>
<u>December 31, 2018</u>				
Statement of Financial Position				
Segment assets	<u>P 453,800,426</u>	<u>P 670,648,854</u>	<u>P 54,393,843</u>	<u>P1,178,843,123</u>

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Domestic	<b>P 750,722,480</b>	P 932,327,487	P 878,617,559
Foreign:			
Taiwan	<b>344,243,727</b>	452,308,026	266,167,161
Others	<u>22,722,345</u>	<u>48,767,170</u>	<u>42,401,548</u>
Total	<b><u>P 1,117,688,552</u></b>	<u>P 1,433,402,683</u>	<u>P 1,187,186,268</u>

The total revenues include revenues from one major customer totalling 30.80% in 2020, 31.45% in 2019 and 22.42% in 2018.



#### 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>2020</u>	<u>2019</u>	<u>2018</u>
<b>Profit or Loss</b>			
Segment results	P 213,718,433	P 226,539,391	P 205,603,599
Other unallocated income (charges) - net	( 398,988)	( 695,530)	724,286
Other unallocated expenses	( 40,027,400)	( 33,495,845)	( 38,116,938)
Profit before tax as reported in profit or loss	<u>P 173,292,045</u>	<u>P 192,348,016</u>	<u>P 168,210,947</u>
<b>Assets</b>			
Segment assets	P 1,337,727,042	P 1,427,706,218	P 1,178,843,123
Other unallocated assets	<u>298,977,230</u>	<u>140,841,504</u>	<u>135,540,539</u>
Total assets reported in the statements of financial position	<u>P 1,636,704,272</u>	<u>P 1,568,547,722</u>	<u>P 1,314,383,662</u>
<b>Liabilities</b>			
Unallocated liabilities (see Note 4.2)	<u>P 358,043,348</u>	<u>P 389,490,965</u>	<u>P 240,005,675</u>
Total liabilities reported in the statements of financial position	<u>P 358,043,348</u>	<u>P 389,490,965</u>	<u>P 240,005,675</u>

#### 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 Company determines that the categories used in the investor presentations and financial reports used by the Company's Executive Committee can be used to meet the objective of the disaggregation disclosure requirement of PFRS 15, which is to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. 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 are shown below.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Sales channel:</i>			
Manufacturers and traders	P 654,360,302	P 892,914,308	P 682,227,418
Contractors and developers	395,969,372	454,993,825	270,740,904
Wholesalers and retailers	<u>67,358,878</u>	<u>85,494,550</u>	<u>234,217,946</u>
	<u>P 1,117,688,552</u>	<u>P 1,433,402,683</u>	<u>P 1,187,186,268</u>

## 5. CASH AND CASH EQUIVALENTS

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

	<u>2020</u>	<u>2019</u>
Cash on hand and in banks	<b>P 117,666,268</b>	P 43,580,179
Short-term placements	<u>70,530,390</u>	<u>12,876,200</u>
	<b><u>P 188,196,658</u></b>	<b><u>P 56,456,379</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 0.39% to 0.59% in 2020, 1.00% to 1.75% in 2019 and 1.00% to 1.79% in 2018.

Interest income amounting to P0.4 million, P0.6 million and P0.5 million in 2020, 2019 and 2018, 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>2020</u>	<u>2019</u>
Trade receivables	17.1	<b>P 263,758,274</b>	P 254,494,850
Advances to:			
Suppliers		<b>25,687,018</b>	11,999,982
Officers and employees		<b>1,161,283</b>	1,734,835
Other receivables	17.3	<u>376,602</u>	<u>137,380</u>
		<b>290,983,177</b>	268,367,047
Allowance for impairment		<b>( 14,976,073)</b>	<b>( 12,800,767)</b>
		<b><u>P 276,007,104</u></b>	<b><u>P 255,566,280</u></b>

Trade receivables are due from various customers and have credit terms of 30 to 90 days. Of the total outstanding trade receivables, P50.6 million and P41.0 million as of December 31, 2020 and 2019, respectively, are guaranteed by customers' post-dated checks in the custody of the Company.

Advances to suppliers pertain to down payments made by the Company for the purchase of goods, included under Trade and Other Receivables, and/or machineries, included as Others under Other Non-current Assets (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 or assets 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 2020 and 2019 is shown below.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Balance at beginning of year		<b>P 12,800,767</b>	P 14,996,514
Impairment losses	14	<b>2,175,306</b>	-
Write-off		<u>-</u>	<u>(2,195,747)</u>
Balance at end of year		<b><u>P 14,976,073</u></b>	<b><u>P 12,800,767</u></b>

All of the Company's trade and other receivables have been reviewed for 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 21.2(b)]. Impairment losses recognized in 2020 is presented under Other Operating Expenses in the 2020 statement of profit or loss. In 2019, certain portion of receivables fully provided with allowance amounting to P2.2 million were deemed uncollectible; hence, were written off by the Company. There was no similar write-off in 2020.

## 7. INVENTORIES

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

	<u>2020</u>	<u>2019</u>
Finished goods	<b>P 269,619,491</b>	P 270,227,337
Raw materials	<b>187,587,769</b>	211,011,861
Supplies	<b>7,774,671</b>	10,575,935
Packaging materials	<b>3,808,857</b>	3,564,178
Work-in-process	<u>443,208</u>	<u>611,164</u>
	<b><u>P 469,233,996</u></b>	<b><u>P 495,990,475</u></b>

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

## 8. PREPAYMENTS AND OTHER CURRENT ASSETS

The composition of this account is shown below.

	<u>2020</u>	<u>2019</u>
Input VAT	<b>P 104,555,122</b>	P 104,166,413
Prepaid expenses	<u>2,027,642</u>	<u>14,345,598</u>
	<b><u>P 106,582,764</u></b>	<b><u>P 118,512,011</u></b>

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

In prior years, the Company applied for TCC which pertains to input VAT from the Company's importations of raw materials under the Bureau of Customs and Bureau of Internal Revenue (BIR) for the granting of TCC.

As of December 31, 2018, the Company has outstanding application for TCC amounting to P15.9 million, of which P8.9 million was filed in 2018 while the remainder of P7.0 million was filed prior to 2018. However, an allowance for impairment loss amounting to P7.0 million was already recognized prior to 2018 as a result of the uncustomary delay on the issuance of the TCC whereby management assessed such impairment loss without prejudice on the final expected outcome of the Company's rightful claim. An additional allowance for impairment loss amounting to P3.4 million was recognized in 2018, presented as Impairment loss on applied tax credit certificate under Other Income (Charges), when the Company received the related BIR's letter of denial subsequent to December 31, 2018 but prior to the issuance date of the Company's 2018 financial statements.

In 2019, the Company wrote-off the P7.0 million allowance for impairment loss recognized in prior years since management assessed that it will no longer be recoverable due to the lapse of the 120-day period for the BIR to assess the merits of the application; hence, resulting in a deemed denial of the Company's application for TCC. Further, in 2019, the Company received the BIR's letter of denial for the remaining P5.5 million. Management assessed that the total P8.9 million is no longer recoverable due to the explicit denial of the BIR. Thus, the Company wrote-off the allowance for impairment of P3.4 million and derecognized the outstanding amount under application for TCC of P5.5 million in 2019. The amount of input VAT under application for TCC and directly written-off in 2019 is presented as Impairment loss on applied tax credit certificate under Other Income (Charges) in the 2019 statement of profit or loss.

## 9. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property, plant and equipment at the beginning and end of 2020 and 2019 are shown below.

	At Revalued Amount		At Cost					Total
	Land	Land Improvements	Building and Improvements	Transportation Equipment	Machineries, Factory, and Other Equipment	Furniture, Fixtures and Office Equipment	Construction in Progress	
December 31, 2020								
Cost or valuation	P326,566,000	P 4,699,884	P 142,584,174	P 49,888,150	P 464,417,579	P 60,064,271	P 3,533,631	P1,051,753,689
Accumulated depreciation and amortization	-	( 1,882,737)	( 81,387,046)	( 32,867,948)	( 339,787,346)	( 29,797,219)	-	( 485,722,296)
Net carrying amount	<b><u>P326,566,000</u></b>	<b><u>P 2,817,147</u></b>	<b><u>P 61,197,128</u></b>	<b><u>P 17,020,202</u></b>	<b><u>P 124,630,233</u></b>	<b><u>P 30,267,052</u></b>	<b><u>P 3,533,631</u></b>	<b><u>P 566,031,393</u></b>
December 31, 2019								
Cost or valuation	P326,566,000	P 4,699,884	P 141,337,342	P 53,272,614	P 457,061,549	P 54,419,652	P 1,466,102	P1,038,823,143
Accumulated depreciation and amortization	-	( 1,546,589)	( 72,793,582)	( 32,147,531)	( 319,840,947)	( 25,859,216)	-	( 452,187,865)
Net carrying amount	<b><u>P326,566,000</u></b>	<b><u>P 3,153,295</u></b>	<b><u>P 68,543,760</u></b>	<b><u>P 21,125,083</u></b>	<b><u>P 137,220,602</u></b>	<b><u>P 28,560,436</u></b>	<b><u>P 1,466,102</u></b>	<b><u>P 586,635,278</u></b>
January 1, 2019								
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	<b><u>P158,544,000</u></b>	<b><u>P 1,909,675</u></b>	<b><u>P 73,050,185</u></b>	<b><u>P 14,102,267</u></b>	<b><u>P 147,283,304</u></b>	<b><u>P 15,179,752</u></b>	<b><u>P 5,329,244</u></b>	<b><u>P 415,398,427</u></b>

A reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of 2020 and 2019 is shown below.

	At Revalued Amount		At Cost					Total
	Land	Land Improvements	Building and Improvements	Transportation Equipment	Machineries, Factory, and Other Equipment	Furniture, Fixtures and Office Equipment	Construction in Progress	
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 326,566,000	P 3,153,295	P 68,543,760	P 21,125,083	P 137,220,602	P 28,560,436	P 1,466,102	P 586,635,278
Additions	-	-	506,627	519,643	7,236,030	3,236,753	5,335,600	16,834,653
Reclassification	-	-	740,205	-	120,000	2,407,866	(3,268,071)	-
Disposals – net	-	-	-	(1,058,501)	-	-	-	(1,058,501)
Depreciation and amortization charges for the year	-	(336,148)	(8,593,464)	(3,566,023)	(19,946,399)	(3,938,003)	-	(36,380,037)
Balance at December 31, 2020, net of accumulated depreciation and amortization	<u>P 326,566,000</u>	<u>P 2,817,147</u>	<u>P 61,197,128</u>	<u>P 17,020,202</u>	<u>P 124,630,233</u>	<u>P 30,267,052</u>	<u>P 3,533,631</u>	<u>P 566,031,393</u>
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 158,544,000	P 1,909,675	P 73,050,185	P 14,102,267	P 147,283,304	P 15,179,752	P 5,329,244	P 415,398,427
Additions	78,280,000	-	200,000	10,701,920	18,561,676	15,729,123	3,078,729	126,551,448
Revaluation	89,742,000	-	-	-	-	-	-	89,742,000
Reclassification	-	1,520,633	4,560,838	-	405,717	454,683	(6,941,871)	-
Disposals – net	-	-	-	(422,023)	(8,327,216)	-	-	(8,749,239)
Depreciation and amortization charges for the year	-	(277,013)	(9,267,263)	(3,257,081)	(20,702,879)	(2,803,122)	-	(36,307,358)
Balance at December 31, 2019, net of accumulated depreciation and amortization	<u>P 326,566,000</u>	<u>P 3,153,295</u>	<u>P 68,543,760</u>	<u>P 21,125,083</u>	<u>P 137,220,602</u>	<u>P 28,560,436</u>	<u>P 1,466,102</u>	<u>P 586,635,278</u>

Land is stated at revalued amount, being the fair value at the date of revaluation in 2019. The revaluation surplus, net of applicable deferred tax expense, is presented as part of the Revaluation Reserves account in the statements of financial position (see Note 18.5).

Had the land been carried using the cost model, the carrying amount would have been P142.2 million as of December 31, 2020 and 2019. 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 23.3.

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 2020 and 2019, 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 70% to 80% and 6% to 10% as of December 31, 2020 and 2019, respectively. The remaining ongoing projects are expected to be completed by the first quarter of 2021. Other than the remaining capital expenditures, there are no other capital commitments relating to the ongoing projects.

The amount of depreciation and amortization (see Notes 13 and 14) is allocated and presented in the statements of profit or loss under the following line items:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cost of goods sold	<b>P23,373,679</b>	P24,505,279	P 20,554,453
Other operating expenses	<b><u>13,006,358</u></b>	<u>11,802,079</u>	<u>10,863,775</u>
	<b><u>P36,380,037</u></b>	<b><u>P36,307,358</u></b>	<b><u>P 31,418,228</u></b>

In 2020, 2019 and 2018, the Company recognized a gain on disposal of transportation equipment totalling to P0.5 million, P1.0 million and P0.8 million, respectively, which was presented as part of Other income under Other Income (Charges) in the statements of profit or loss.

In 2018, the Company purchased certain machinery and equipment through the advances obtained from a related party. Relative to this, in 2019, the same assets were disposed of and sold directly to a related party and the outstanding amount of P8.3 million was applied against the Company's receivable from the sale of such asset (see Note 17.3). No gain or loss was recognized as a result of the transaction.

Transportation equipment with a total carrying value of P11.2 million and P15.0 million as of December 31, 2020 and 2019, respectively, are used as collateral for car loans (see Note 11.2).

As of December 31, 2020 and 2019, the gross carrying amounts of the Company's fully depreciated and amortized property, plant and equipment that are still being used are P112.9 million and P112.4 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>2020</u>	<u>2019</u>
Deferred input VAT		<b>P 4,970,453</b>	P 7,526,776
Security deposits	12, 17.4	<b>3,695,651</b>	3,802,651
Trademarks - net		<b>294,626</b>	330,428
Others	6	<b><u>671,603</u></b>	<u>291,089</u>
		<b><u>P 9,632,333</u></b>	<b><u>P 11,950,944</u></b>

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 and warehouses upon execution of the service and lease contracts. These payments will be refunded in cash at the termination of the contract. As the utility services, for which the account significantly represents, are expected to be renewed indefinitely, the present value of these financial assets cannot be determined and thus, are carried at cost. As such, the carrying amount of the security deposits is a reasonable approximation of its fair value (see Note 22.1).

Trademarks pertain to the capitalized costs of application and registration with the Intellectual Property Office and Bureau of Product Standards of the Company's logo 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 P0.3 million as of December 31, 2020 and 2019. As of December 31, 2020 and 2019, the amortization expense relating to trademarks amounted to P0.07 million and P0.06 million, respectively, and is presented as part of Depreciation and amortization under the Other Operating Expenses in the statements of profit or loss (see Note 14).

## 11. LOANS AND PAYABLES

### 11.1 Trade and Other Payables

The composition of this account is shown below.

	<u>Notes</u>	<u>2020</u>	<u>2019</u>
Trade payables	17.2	<b>P 211,838,221</b>	P 217,254,931
Advances from customers		<b>27,461,918</b>	22,314,812
Accrued expenses	11.2	<b>6,584,717</b>	6,497,133
Others		<b><u>16,457,277</u></b>	<u>35,178,212</u>
		<b><u>P 262,342,133</u></b>	<u>P 281,245,088</u>

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. Others also include the unpaid portion of the land acquired in 2019 amounting to P21.6 million, which was fully settled in 2020.

### 11.2 Loans and Mortgage Payables

The composition of this account is shown below.

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Mortgage payables:			
Current	9	<b>P 2,480,902</b>	P 3,160,034
Non-current	9	<b><u>4,561,326</u></b>	<u>6,949,617</u>
		<b><u>P 7,042,228</u></b>	<u>P 10,109,651</u>

In 2020 and 2019, the Company entered into short-term loan agreements with a local bank for working capital purposes. The short-term loans bear fixed annual interest of 5.75% in 2020 and ranges from 6.75% to 7.0%, in 2019. All short-term loans, including those obtained in 2020 and 2019, have been settled in 2020 and 2019, respectively.

In 2019 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 (see Note 9). The car loans bear fixed annual effective interest which ranges from 2.6% to 10.96% and have terms of five years, payable monthly. The related outstanding balances are presented as Mortgage payables under Loans and Mortgage Payables for the current portion and Mortgage Payables for the non-current portion in the statements of financial position.

Interest expense related to the short-term loans and mortgage payables amounted to P1.3 million, P2.4 million and P0.7 million in 2020, 2019 and 2018, respectively, and is shown as part of Finance costs under Other Income (Charges) in the statements of profit or loss. There were no borrowing costs capitalized in 2020, 2019 and 2018. Accrued interest amounting to P0.03 million as of December 31, 2020 and 2019 is presented as part of Accrued expenses under Trade and Other Payables in the statements of financial position (see Note 11.1).

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, 2020	P -	P 10,109,651	P 10,109,651
Cash flows from financing activities			
Additional borrowings	35,000,000	-	35,000,000
Payments made	( 35,000,000)	( 3,075,046)	( 38,075,046)
Interest paid	( 788,229)	( 533,163)	( 1,321,392)
Non-cash financing activity			
Interest expense	<u>788,229</u>	<u>540,786</u>	<u>1,329,015</u>
Balance as of December 31, 2020	<b><u>P -</u></b>	<b><u>P 7,042,228</u></b>	<b><u>P 7,042,228</u></b>
Balance as of January 1, 2019	P 28,000,000	P 5,515,025	P 33,515,025
Cash flows from financing activities			
Additional borrowings	50,000,000	7,408,541	57,408,541
Payments made	( 78,000,000)	( 2,840,792)	( 80,840,792)
Interest paid	( 1,395,625)	( 992,572)	( 2,388,197)
Non-cash financing activity			
Interest expense	<u>1,395,625</u>	<u>1,019,449</u>	<u>2,415,074</u>
Balance as of December 31, 2019	<b><u>P -</u></b>	<b><u>P 10,109,651</u></b>	<b><u>P 10,109,651</u></b>
Balance as of January 1, 2018	P -	P 4,233,145	P 4,233,145
Cash flows from financing activities			
Additional borrowings	33,000,000	3,190,000	36,190,000
Payments made	( 5,000,000)	( 1,908,120)	( 6,908,120)
Interest paid	( 332,389)	( 407,230)	( 739,619)
Non-cash financing activity			
Interest expense	<u>332,389</u>	<u>407,230</u>	<u>739,619</u>
Balance as of December 31, 2018	<b><u>P 28,000,000</u></b>	<b><u>P 5,515,025</u></b>	<b><u>P 33,515,025</u></b>



## 12. LEASES

The Company is a lessee under non-cancellable operating leases covering its warehouses and office spaces. The lease for warehouses has a term of three to 10 years, including the new leases entered into in 2019, and includes annual escalation rate of 5.00% to 10.00%, while the leases for office space have terms of three to five years with annual escalation rates ranging from 5.00% to 10.00%. All leases have renewal options. Generally, termination of lease contracts shall be communicated to the lessee by the lessor 30 to 60 days prior to the termination or expiration of the lease contract. With the exception of short-term leases, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability. The Company classifies its right-of-use assets and lease liabilities as a separate line item in the statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublease the asset to another party, the right-of-use asset can only be used by the Company. The Company must keep those properties in a good state of repair and return the properties in their same and good condition less ordinary wear and tear at the end of the lease. Further, the Company must insure items of property and equipment and incur maintenance fees on such items in accordance with the lease contracts.

Refundable security deposits represent the lease deposits made for the lease of the Company's office and warehouse. Related security deposits for these leases amounted to P1.4 million and P1.5 million as at December 31, 2020 and 2019, respectively, and are presented as part of Other Non-current Assets in the statements of financial position (see Note 10).

### 12.1 Right-of-use Assets

The carrying amounts of the Company's right-of-use assets as at December 31, 2020 and 2019 and the movements during the reporting periods are shown below.

	<u>Warehouses</u>	<u>Office</u>	<u>Total</u>
Balance as of January 1, 2020	P 39,457,052	P 3,979,303	P 43,436,355
Lease modification	( 15,095,293)	-	( 15,095,293)
Depreciation	( 4,577,744)	( 1,239,276)	( 5,817,020)
Pre-termination of leases	( <u>1,198,197</u> )	( <u>305,821</u> )	( <u>1,504,018</u> )
Balance as of December 31, 2020	<b><u>P 18,585,818</u></b>	<b><u>P 2,434,206</u></b>	<b><u>P 21,020,024</u></b>
Balance as of January 1, 2019	P 1,906,222	P 5,378,771	P 7,284,993
Additions	40,132,046	-	40,132,046
Depreciation	( <u>2,581,216</u> )	( <u>1,399,468</u> )	( <u>3,980,684</u> )
Balance as of December 31, 2019	<u>P 39,457,052</u>	<u>P 3,979,303</u>	<u>P 43,436,355</u>

In January 2020, two lease contracts were pre-terminated resulting in derecognition of right-of-use assets and lease liabilities with carrying values of P1.5 million and P1.7 million, respectively, and recognition of a gain on pre-termination of leases amounting to P0.2 million. The related gain is presented as part of Other income under Other Income (Charges) in the 2020 statement of profit or loss.

Further, in December 2020, a lease contract was modified reducing the leased space from two warehouses to only one warehouse. This resulted in derecognition of right-of-use asset and lease liability with carrying values of P15.1 million and P16.0 million, respectively, and recognition of a gain on lease modification amounting to P0.9 million. The related gain is presented as part of Other income under Other Income (Charges) in the 2020 statement of profit or loss.

The depreciation expense relating to right-of-use assets is presented as part of Depreciation and amortization under the Other Operating Expenses in the 2020 and 2019 statements of profit or loss (see Note 14).

## 12.2 Lease Liabilities

Total outstanding balance of lease liabilities as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Current	<b>P 3,466,766</b>	P 4,621,594
Non-current	<u>19,237,768</u>	<u>39,565,489</u>
	<b><u>P 22,704,534</u></b>	<b><u>P 44,187,083</u></b>

The movements in the lease liabilities recognized in the statements of financial position as of December 31 are as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 44,187,083</b>	P 7,284,993
Lease modification	<b>( 16,016,042 )</b>	-
Repayments of lease liabilities	<b>( 6,708,341 )</b>	( 4,043,003 )
Interest accretion	<b>2,895,546</b>	1,137,047
Pre-termination of leases	<b>( 1,653,712 )</b>	-
Additional lease liabilities	<u>-</u>	<u>39,808,046</u>
Balance at end of year	<b><u>P 22,704,534</u></b>	<b><u>P 44,187,083</u></b>

The use of termination option to certain lease contracts gives the Company added flexibility in the event it has identified more suitable premises in terms of cost and/or location. The future cash outflows to which the Company is potentially exposed to that are not reflected in the measurement of lease liabilities represent the amount of remaining utility bills until clearance from the contract, other damages to the premises, and the security deposits and advance rentals to be forfeited (if any). An option is only exercised when consistent with the Company's business strategy and the economic benefits of exercising such option exceeds the expected overall cost. In 2020, the Company exercised its termination option for two lease contracts. No penalties were incurred or obligations assumed arising from the lease termination. There was no similar case in 2019 and 2018.

As of December 31, 2020 and 2019, the Company has no commitments for leases entered into which had not commenced.

The undiscounted maturity analysis of lease liabilities as of December 31, 2020 and 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
<b>2020:</b>							
Lease payments	P 5,004,435	P 4,860,789	P 4,535,537	P 2,344,378	P 2,461,597	P 10,364,555	P 29,571,291
Finance charges	( 1,537,669)	( 1,289,777)	( 1,040,033)	( 863,430)	( 744,387)	( 1,391,461)	( 6,866,757)
Net present values	<b><u>P 3,446,766</u></b>	<b><u>P 3,571,012</u></b>	<b><u>P 3,495,504</u></b>	<b><u>P 1,480,948</u></b>	<b><u>P 1,717,210</u></b>	<b><u>P 8,973,094</u></b>	<b><u>P 22,704,534</u></b>
<b>2019:</b>							
Lease payments	P 7,692,975	P 8,047,702	P 7,060,692	P 6,845,435	P 4,769,772	P 26,095,539	P 60,512,116
Finance charges	( 3,071,381)	( 2,733,492)	( 2,378,878)	( 2,039,079)	( 1,756,697)	( 4,345,505)	( 16,325,033)
Net present values	<b><u>P 4,621,594</u></b>	<b><u>P 5,314,210</u></b>	<b><u>P 4,681,814</u></b>	<b><u>P 4,806,356</u></b>	<b><u>P 3,013,075</u></b>	<b><u>P 21,750,034</u></b>	<b><u>P 44,187,083</u></b>

### 12.3 Lease Payments Not Recognized as Liabilities

The Company has elected not to recognize lease liability for short-term leases. Payments made under such leases are expensed on a straight-line basis.

The expenses relating to short-term leases amounted to P1.5 million and P1.4 million in 2020 and 2019, respectively, and is presented as Rentals under Other Operating Expenses in the statements of comprehensive income (see Note 14).

As at December 31, 2020 and 2019, the Company is committed to short-term leases, and the total commitment at that date is both P0.5 million.

### 12.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P6.7 million and P4.0 million in 2020 and 2019, respectively. Interest expense in relation to lease liabilities amounted to P2.9 million and P1.1 million in 2020 and 2019, respectively, and is presented as part of Finance costs under Other Income (Charges) in the 2020 and 2019 statements of profit or loss.

## 13. COST OF GOODS SOLD

The details of cost of goods sold are shown below.

	Notes	2020	2019	2018
Finished goods at beginning of year	7	<b><u>P 270,227,337</u></b>	<u>P 239,002,569</u>	<u>P 203,913,087</u>
Cost of goods manufactured:				
Raw materials at beginning of year	7	<b>211,011,861</b>	206,687,341	155,822,092
Net purchases during the year		<b>664,396,952</b>	960,049,260	841,295,869
Direct labor	15.1	<b>17,072,797</b>	26,942,084	24,255,785
Manufacturing overhead	9, 15.1	<b>66,480,645</b>	88,933,728	72,512,196
Raw materials at end of year	7	( <b>187,587,769</b> )	( 211,011,861)	( 206,687,341)
Work-in-process at beginning of the year	7	<b>611,164</b>	241,522	2,788,754
Work-in-process at end of year	7	( <b>443,208</b> )	( 611,164)	( 241,522)
		<b><u>771,542,442</u></b>	<u>1,071,230,910</u>	<u>889,745,833</u>
Finished goods at end of year	7	( <b>269,619,491</b> )	( 270,227,337)	( 239,002,569)
	14	<b><u>P 772,150,288</u></b>	<u>P1,040,006,142</u>	<u>P 854,656,351</u>

## 14. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2020	2019	2018
Materials used in production		<b>P 687,821,044</b>	P 955,724,740	P 790,430,620
Salaries and employee benefits	15.1	<b>85,282,828</b>	106,898,685	96,166,696
Depreciation and amortization	9, 10, 12	<b>42,261,701</b>	40,349,239	31,476,494
Utilities		<b>25,446,649</b>	37,142,489	35,774,006
Outside services		<b>24,476,366</b>	26,481,227	25,479,642
Supplies		<b>9,968,715</b>	10,224,687	8,058,524
Taxes and licenses		<b>9,953,332</b>	10,219,227	9,180,832
Delivery		<b>9,903,219</b>	11,484,633	9,073,249
Transportation and travel		<b>8,221,023</b>	11,782,951	10,577,430
Repairs and maintenance		<b>6,933,138</b>	7,921,513	8,183,478
Professional fees	17.6	<b>6,874,796</b>	4,871,714	3,188,473
Advertising and promotions		<b>4,369,438</b>	8,823,415	12,594,166
Impairment loss on trade receivables	6	<b>2,175,306</b>	-	-
Insurance		<b>1,920,994</b>	2,043,963	1,740,891
Representation		<b>1,561,833</b>	3,204,935	2,105,646
Rentals	12.3, 17.4, 20.1	<b>1,450,024</b>	1,394,689	3,908,394
Changes in finished goods		<b>607,846</b>	( 31,224,768 )	( 35,089,482 )
Changes in work-in-process		<b>167,956</b>	( 369,642 )	2,547,232
Miscellaneous		<b>14,424,619</b>	19,373,231	6,317,473
		<b><u>P 943,820,827</u></b>	<b><u>P 1,226,346,928</u></b>	<b><u>P 1,021,713,764</u></b>

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

	Note	2020	2019	2018
Cost of goods sold	13	<b>P 772,150,288</b>	P 1,040,006,142	P 854,656,351
Other operating expenses		<b>171,670,539</b>	186,340,786	167,057,413
		<b><u>P 943,820,827</u></b>	<b><u>P 1,226,346,928</u></b>	<b><u>P 1,021,713,764</u></b>

## 15. EMPLOYEE BENEFITS

### 15.1 Salaries and Employee Benefits

Details of salaries and employee benefits are presented below.

	Notes	2020	2019	2018
Short-term employee benefits		<b>P 80,827,929</b>	P 103,639,325	P 93,195,654
Post-employment defined benefits	15.2(b)	<b>4,454,899</b>	3,259,360	2,971,042
	14	<b><u>P 85,282,828</u></b>	<b><u>P 106,898,685</u></b>	<b><u>P 96,166,696</u></b>

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

	Notes	2020	2019	2018
Cost of goods sold	13	<b>P 19,038,759</b>	P 29,271,075	P 25,995,743
Other operating expenses		<b>66,244,069</b>	77,627,610	70,170,953
	14	<b><u>P 85,282,828</u></b>	<b><u>P 106,898,685</u></b>	<b><u>P 96,166,696</u></b>

## 15.2 Post-employment Defined Benefit Plan

### (a) Characteristics of Post-employment Defined Benefit Plan

The Company maintains a tax-qualified, partially funded and non-contributory post-employment defined benefit plan covering all regular full-time employees. The Company conforms with the minimum regulatory benefit of Republic Act 7641, *The Retirement Pay Law*, which is of a defined benefit type and provides for a lump sum retirement benefit equal to 22.5-day pay for every year of credited service. The normal retirement age is 60 with a minimum of five years of credited service.

### (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 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Present value of the obligation	<b>P 39,189,579</b>	P 50,586,844
Fair value of plan assets	<b>( 39,140,723)</b>	( 43,754,400)
	<b><u>P 48,856</u></b>	<b><u>P 6,832,444</u></b>

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

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 50,586,844</b>	P 42,546,702
Current service cost	<b>4,454,899</b>	3,259,360
Interest cost	<b>2,610,281</b>	3,191,003
Benefits paid	<b>( 9,884,780)</b>	( 782,948)
Remeasurement – actuarial losses (gains) arising from:		
Experience adjustments	<b>( 7,667,103)</b>	( 2,891,031)
Changes in financial assumptions	<b>( 910,562)</b>	<u>5,263,758</u>
Balance at end of year	<b><u>P 39,189,579</u></b>	<b><u>P 50,586,844</u></b>

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

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	<b>P 43,754,400</b>	P 36,420,917
Contributions to the plan	<b>2,590,968</b>	3,917,630
Interest income	<b>2,069,547</b>	2,849,119
Benefits paid	<b>( 9,884,780)</b>	( 782,948)
Actuarial gain on interest income from plan assets	<b><u>610,588</u></b>	<u>1,349,682</u>
Balance at end of year	<b><u>P 39,140,723</u></b>	<b><u>P 43,754,400</u></b>

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>2020</u>	<u>2019</u>
Cash and cash equivalents	<b>P 1,366,011</b>	P 2,839,661
Debt securities – Philippine government bonds	<b>29,038,502</b>	32,225,116
Unit investment trust funds (UITF)	<b>5,843,710</b>	5,959,349
Others	<b><u>2,892,500</u></b>	<u>2,730,274</u>
	<b><u>P 39,140,723</u></b>	<u>P 43,754,400</u>

Others comprise of accrued interest and other receivables.

The fair value of debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). While UITF is classified as Level 2 on which the fair value was derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines (see Note 23.1).

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>2020</u>	<u>2019</u>	<u>2018</u>
<i>Recognized in profit or loss:</i>			
Current service cost	<b>P 4,454,899</b>	P 3,259,360	P 2,971,042
Net interest expense	<b><u>540,734</u></b>	<u>341,884</u>	<u>399,406</u>
	<b><u>P 4,995,633</u></b>	<u>P 3,601,244</u>	<u>P 3,370,448</u>
<i>Recognized in other comprehensive income:</i>			
Actuarial losses (gains) arising from:			
Experience adjustments	<b>(P 7,667,103)</b>	(P 2,891,031)	P 2,328,217
Changes in financial assumptions	<b>( 910,562)</b>	5,263,758	( 8,662,401)
Negative (positive) return on plan assets	<b>( <u>610,588</u>)</b>	<u>( 1,349,682)</u>	<u>3,739,275</u>
	<b><u>(P 9,188,253)</u></b>	<u>P 1,023,045</u>	<u>(P 2,594,909)</u>

Current service cost is 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 13 and 14).

The net interest expense is included as part of Finance costs under Other Income (Charges) 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>2020</u>	<u>2019</u>	<u>2018</u>
Discount rate	<b>3.95%</b>	5.16%	7.50%
Salary increase rate	<b>3.50%</b>	5.00%	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 in 2020 and 2019 is 25.7 years and 25.4 years, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds, with terms to maturity approximating 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 other assets and if the return on plan assets falls below this rate, it will create a deficit in the plan.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(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 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, 2020 and 2019:

	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, 2020</u></b>			
Discount rate	+/- 1.0%	(P 2,730,118)	P 3,364,123
Salary growth rate	+/- 1.0%	3,344,458	( 2,764,896)
<u>December 31, 2019</u>			
Discount rate	+/- 1.0%	(P 2,543,126)	P 3,117,262
Salary growth rate	+/- 1.0%	3,089,904	( 2,568,751)

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, 2020 and 2019 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 within the next ten years follow:

	<u>2020</u>	<u>2019</u>
Within one year to five years	<b>P 24,028,665</b>	P 38,236,034
More than five years to ten years	<u>6,605,087</u>	<u>5,942,207</u>
	<b><u>P 30,633,752</u></b>	<b><u>P 44,178,241</u></b>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 7.8 years.

## 16. CURRENT AND DEFERRED TAXES

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<i>Reported in profit or loss:</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	<b>P 52,114,118</b>	P 55,058,304	P 49,416,906
Final tax at 20%; and 15%	<u>68,030</u>	<u>104,452</u>	<u>79,345</u>
	<b>52,182,148</b>	55,162,756	49,496,251
Deferred tax expense (income) relating to origination and reversal of temporary differences	<b>(139,192)</b>	770,607	1,111,878
	<b><u>P 52,042,956</u></b>	<b><u>P 55,933,363</u></b>	<b><u>P 50,608,129</u></b>
<i>Reported in other comprehensive income –</i>			
Deferred tax expense relating to revaluation increment on land and remeasurements of post-employment defined benefit plan			
	<b><u>P 2,756,476</u></b>	<b><u>P 26,615,687</u></b>	<b><u>P 778,473</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>2020</u>	<u>2019</u>	<u>2018</u>
Tax on pre-tax profit at 30%	<b>P 51,987,614</b>	P 57,704,405	P 50,463,284
Adjustment for income subjected to lower tax rates	<b>(39,254)</b>	(87,601)	(77,520)
Tax effects of:			
Non-deductible expenses	<b>94,596</b>	421,208	222,365
Utilization of previously written off application for TCC	<u>-</u>	<u>(2,104,649)</u>	<u>-</u>
Tax expense reported in profit or loss	<b><u>P 52,042,956</u></b>	<b><u>P 55,933,363</u></b>	<b><u>P 50,608,129</u></b>

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

	<u>Statements of Financial Position</u>			
	<u>2020</u>		<u>2019</u>	
Deferred tax assets:				
Impairment loss on trade and other receivables	<b>P</b>	<b>4,492,822</b>	P	3,840,230
Post-employment defined benefit obligation		<b>14,657</b>		2,049,734
Unamortized past service cost		<b>1,394,324</b>		1,843,181
Effect of PFRS 16		<b>602,553</b>		322,418
Unrealized foreign currency losses - net		<u>-</u>		<u>195,520</u>
		<b><u>6,504,356</u></b>		<b><u>8,251,083</u></b>
Deferred tax liabilities:				
Revaluation increment on land	(	<b>55,321,725)</b>	(	55,321,725)
Unrealized foreign currency gains - net	(	<b>870,557)</b>	-	
	(	<b><u>56,192,282)</u></b>	(	<b><u>55,321,725)</u></b>
Net Deferred Tax Liabilities	<b>(P</b>	<b><u>49,687,926)</u></b>	<b>(P</b>	<b><u>47,070,642)</u></b>

	<u>Statements of Profit or Loss and Statements of Comprehensive Income</u>					
	<u>Profit or Loss</u>			<u>Other Comprehensive Income</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Deferred tax assets:						
Post-employment defined benefit obligation	<b>(P 721,399)</b>	P 94,916	P 164,154	<b>P 2,756,476</b>	(P 306,913)	P 778,473
Impairment loss on trade and other receivables	<b>( 652,592)</b>	658,724	816,305	-	-	-
Unamortized past service cost	<b>448,857</b>	251,379	145,134	-	-	-
Effect of PFRS 16	<b>( 280,135)</b>	( 322,418)	-	-	-	-
Unrealized foreign currency losses - net	<b>195,520</b>	( 195,520)	269,811	-	-	-
Impairment loss on applied TCC	-	1,007,846	( 1,007,846)	-	-	-
	<b>( 1,009,749)</b>	1,494,927	387,558	<b>2,756,476</b>	( 306,913)	778,473
Deferred tax liabilities:						
Unrealized foreign currency gains - net	<b>870,557</b>	( 724,320)	724,320	-	-	-
Revaluation increment on land	-	-	-	-	26,922,600	-
	<b>870,557</b>	( 724,320)	724,320	-	26,922,600	-
Net Deferred Tax Expense (Income)	<b>(P 139,192)</b>	P 770,607	P 1,111,878	<b>P 2,756,476</b>	P 26,615,687	P 778,473

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 in 2020, 2019 and 2018 as the RCIT was higher than MCIT in those years.

In 2020, 2019 and 2018, the Company claimed itemized deductions in computing for its income tax due.

On February 1, 2021, the Bicameral Conference Committee of the Philippine House of Representatives and the Philippine Senate has approved the reconciled version of the *Corporate Recovery and Tax Incentives (CREATE) bill* which, among others, seeks to lower RCIT rates and rationalize certain fiscal incentives. As of the date of issuance of the Company's 2020 financial statements, the CREATE bill is yet to be enacted into a law pending approval by the President of the Philippines. The effective date on the reconciled version of the CREATE bill for corporate income tax rate is July 1, 2020. When enacted, the corporate income tax rate for the Company from January 1, 2020 to June 30, 2020 and July 1, 2020 to December 31, 2020 will be 30% and 25%, respectively. Pending the enactment of the CREATE bill, the Company used the prevailing regular corporate income tax rate of 30% as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements, which will differ from the annual income tax return upon the effectivity of the CREATE bill.

## 17. RELATED PARTY TRANSACTIONS

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

The summary of the Company's transactions with its related parties for the years ended December 31, 2020, 2019 and 2018 and the outstanding balances as of December 31, 2020 and 2019 are as follows:

	Note	Amounts of Transactions		
		2020	2019	2018
<b>Related Parties Under</b>				
<b>Common Ownership:</b>				
Sale of goods	17.1	P 25,138,418	P 32,344,043	P 33,866,747
Purchase of goods and services	17.2	58,032,825	48,480,138	62,100,195
Advances granted	17.3	1,710	( 4,333)	112,013
Advances obtained for the purchase of machinery and equipment	17.3	-	( 8,327,216)	8,327,216
Lease of properties	17.4	421,071	452,500	3,187,967
Right-of-use asset	17.4	( 1,504,018)	7,284,993	-
Lease liabilities	17.4	3,061,052	( 7,284,993)	-
Depreciation	17.4	1,293,739	2,053,030	-
Interest expense	17.4	234,980	423,101	-
Gain on pre-termination of leases	17.4	149,694	-	-
Security deposit	17.4	( 146,926)	144,735	( 493,945)
Consultation services	17.6	867,500	-	-
<b>Key Management Personnel –</b>				
Compensation	17.5	45,698,751	47,837,856	46,239,479
		<u>Outstanding Balances</u>		
		<u>2020</u>	<u>2019</u>	
<b>Related Parties Under</b>				
<b>Common Ownership:</b>				
Sale of goods	17.1	P 8,220,277	P 6,111,574	
Purchase of goods and services	17.2	( 3,083,288)	( 1,642,175)	
Advances granted	17.3	7,734	6,024	
Right-of-use assets	17.4	2,434,206	5,231,963	
Lease liabilities	17.4	( 2,828,378)	( 5,654,450)	
Security deposit	17.4	258,778	405,704	
<b>Stockholders –</b>				
Advances obtained	17.3	( 46,057)	( 46,057)	

The Company's outstanding receivables with related parties were subjected to impairment using the requirements of PFRS 9. 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. There were no impairment losses recognized for these receivables from related parties in 2020, 2019 and 2018 [see Note 21.2(b)].

### ***17.1 Sale of Goods***

The Company sells finished goods to related parties under common ownership. Goods are sold on the basis of the price lists in force and terms that would be available to non-related parties. The outstanding receivables from sale of goods, which are generally noninterest-bearing, unsecured and settled through cash within three to six months, are presented as part of Trade receivables under Trade and Other Receivables in the statements of financial position (see Note 6).

### ***17.2 Purchase of Goods and Services***

Goods and services are purchased on the basis of the price lists in force with non-related parties. The related outstanding payables for goods and services purchased in 2020 and 2019 are presented as part of Trade payables under Trade and Other Payables 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 incurred for the services of Husky as part of the finished goods based on the billings received. The basis of the price charged to the Company is in line with Husky's prevailing market rates. The related outstanding payables for these services from Husky as of December 31, 2020 and 2019 are presented as part of Trade payables under Trade and Other Payables 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.

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

The Company grants/obtains unsecured, noninterest-bearing advances to/from its related parties under common ownership and certain stockholders. These advances are repayable either in cash or through offsetting. The outstanding balance of receivable from related party advances is presented as part of Other receivables under Trade and Other Receivables in the statements of financial position (see Note 6).

On the other hand, the outstanding balance of payable to a stockholder is presented as Advances from a Stockholder 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 under common ownership in favor of the Company (see Note 9). 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 in the 2018 statement of financial position (see Note 11.1). There was no similar transaction in 2020 and 2019.

#### **17.4 Lease of Properties**

The Company entered into lease contracts with a related party under common ownership covering its office spaces and warehouse with lease terms ranging from two to five years. In 2019, in accordance with PFRS 16, the Company recognized right-of-use assets and lease liabilities amounting to P7.3 million for these lease contracts.

In 2020, two lease contracts were pre-terminated resulting in derecognition of right-of-use assets and lease liabilities with carrying values of P1.5 million and P1.7 million, respectively, and recognition of a gain on pre-termination of leases amounting to P0.2 million (see Note 12.1). The Company incurred depreciation expense amounting to P1.3 million and P2.0 million in 2020 and 2019, respectively. The Company also incurred interest expense amounting to P0.2 million and P0.5 million in 2020 and 2019. The depreciation expense and interest expense incurred were recognized in the 2020 and 2019 statements of profit or loss (see Note 14).

The related deposit as of December 31, 2020 and 2019, which is refundable at the termination of the lease term, is presented as part of Security deposits under Other Non-current Assets in the statements of financial position (see Note 10).

Further, in 2020 and 2019, the Company incurred rental expense for short-term vehicle leases with a related party under common ownership amounting to P0.4 million and P0.5 million, respectively, and is shown as part of Rentals under Other Operating Expenses in 2020 and 2019 statements of profit or loss (see Note 14).

#### **17.5 Key Management Personnel Compensation**

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Short-term benefits	<b>P 42,258,618</b>	P 45,332,703	P 43,520,499
Post-employment defined benefits	<b><u>3,440,133</u></b>	<u>2,505,153</u>	<u>2,718,980</u>
	<b><u>P 45,698,751</u></b>	<u>P 47,837,856</u>	<u>P 46,239,479</u>

#### **17.6 Others**

In 2020, the Company entered into a consulting service agreement with a stockholder relating to employees training for four months amounting to P0.9 million, which is shown as part of Professional fees under Other Operating Expenses in 2020 statement of profit or loss (see Note 14). There was no outstanding balance as of December 31, 2020. There was no similar transaction in 2019 and 2018.

The Company's retirement fund for its post-employment benefit plan is administered and managed by a trustee bank. The retirement fund neither provides any guarantee or surety for any obligation of the Company nor its investments covered by any restrictions or liens. The fair value of the plan assets and the composition of the plan assets as of December 31, 2020 and 2019 are shown in Note 15.2.

## 18. EQUITY

### *18.1 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, 2020 and 2019 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, 2020, 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 P1.87. The total number of stockholders is 58 and 42 as of December 31, 2020 and 2019, respectively. The public float lodged with Philippine Central Depository Nominee Corporation is counted only as one stockholder.

### *18.2 Additional Paid-in Capital*

Additional paid-in capital consists of P52.3 million from the initial public offering in 2015, net of P12.5 million stock issuance costs incurred such as underwriting fees and commissions, taxes and filing fees (see Note 1).

### *18.3 Retained Earnings*

The information of cash dividends, which are all regular dividends, are summarized below.

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of Payment</u>	<u>Amount</u>	<u>Dividends per share</u>
March 29, 2020	June 26, 2020	July 22, 2020	P 24,443,639	P 0.04
March 12, 2019	April 12, 2019	May 9, 2019	31,455,100	0.05
March 12, 2019	July 9, 2019	July 23, 2019	24,921,080	0.04
March 9, 2018	April 12, 2018	May 9, 2018	25,232,000	0.04
March 9, 2018	June 26, 2018	July 11, 2018	31,540,000	0.05

### *18.4 Share Buyback Program*

On December 5, 2018, the Company's BOD approved the adoption of a Share Buyback Program (SBP) whereby the Company is authorized to reacquire its capital stock from the public for an aggregate acquisition price of P100.0 million. As of December 31, 2020 and 2019, the cumulative number of shares repurchased consists of 20,161,000 treasury shares and 18,356,000 treasury shares aggregating to an acquisition cost of P41.1 million and P37.5 million, respectively. The SBP has already concluded on December 5, 2020.

### 18.5 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>Revaluation Increment on Land</u> <small>(see Note 9)</small>	<u>Actuarial Gain or Loss on Post-employment Benefit Plan</u> <small>(see Note 15.2)</small>	<u>Total</u>
Balance as of January 1, 2020	P 129,084,027	(P 4,026,483)	P 125,057,544
Remeasurements of post-employment defined benefit plan	-	9,188,253	9,188,253
Tax expense	<u>-</u>	<u>( 2,756,476)</u>	<u>( 2,756,476)</u>
Balance as of December 31, 2020	<b><u>P 129,084,027</u></b>	<b><u>P 2,405,294</u></b>	<b><u>P 131,489,321</u></b>
Balance as of January 1, 2019	P 66,264,627	(P 3,310,351)	P 62,954,276
Gain on revaluation of land	89,742,000	-	89,742,000
Remeasurements of post-employment defined benefit plan	-	( 1,023,045)	( 1,023,045)
Tax income (expense)	<u>( 26,922,600)</u>	<u>306,913</u>	<u>( 26,615,687)</u>
Balance as of December 31, 2019	<b><u>P 129,084,027</u></b>	<b><u>(P 4,026,483)</u></b>	<b><u>P 125,057,544</u></b>
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	<u>-</u>	<u>( 778,473)</u>	<u>( 778,473)</u>
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>

## 19. EARNINGS PER SHARE

Basic and diluted EPS is computed as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net profit	<b>P 121,249,089</b>	P 136,414,653	P 117,602,818
Divided by weighted average number of outstanding common shares (considering the effect of treasury shares)	<b><u>611,075,083</u></b>	<u>622,417,750</u>	<u>630,800,000</u>
Basic and diluted EPS	<b><u>P 0.20</u></b>	<u>P 0.22</u>	<u>P 0.19</u>

The Company does not have dilutive potential common shares outstanding as of December 31, 2020, 2019 and 2018; hence, diluted EPS is equal to the basic EPS.

## 20. COMMITMENTS AND CONTINGENCIES

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

### 20.1 Operating Lease Commitments – Company as Lessee (2018)

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 future minimum lease payments under these non-cancellable operating leases as of December 31, 2018 is shown in the succeeding page.

Within one year	P	2,253,907
After one year but not more than five years		<u>4,485,829</u>
	P	<u>6,739,736</u>

Rental expense for the year ended December 31, 2018 amounted to P3.9 million (see Note 14).

### ***20.2 Unused Credit Lines***

The Company had P420.0 million and P320.0 million of unused credit lines of the approved Omnibus Line of Credit from local banks granted as of December 31, 2020 and 2019, respectively.

### ***20.3 Others***

There are other commitments and contingent liabilities that arise in the normal course of the Company's operations which are not reflected in the financial statements. As of December 31, 2020 and 2019, management and its legal counsel are of the opinion that losses, if any, from these items will not have a material effect on the Company's financial statements.

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

The Company is exposed to a variety of financial risks in relation to financial instruments. The Company's financial assets and financial liabilities by category are summarized in Note 22. The main types of risks are market risk, credit risk and liquidity risk.

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

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

### ***21.1 Market Risk***

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

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

Most of the Company's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Company's overseas sales and purchases, which are primarily denominated in 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>2020</u>	<u>2019</u>
Financial assets	<b>P 100,017,894</b>	P 78,742,084
Financial liabilities	<b>( 7,092,996)</b>	( 4,398,597)
Net exposure	<b><u>P 92,924,898</u></b>	<u>P 74,343,487</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 +/- 13.12% and +/- 11.87% change of the Philippine peso/ U.S. dollar exchange rate for the years ended December 31, 2020 and 2019, 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 13.12% and 11.87% at December 31, 2020 and 2019, profit before tax for the years ended December 31, 2020 and 2019 would have decreased by P12.2 million and P8.8 million, respectively. Conversely, if the Philippine peso had weakened against the U.S. dollar by the same percentages at December 31, 2020 and 2019, profit before tax for the years ended December 31, 2020 and 2019 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.

Unrealized foreign currency exchange gains - net amounts to P2.9 million in 2020 and P2.4 million in 2018, while unrealized foreign currency exchange losses - net amounts to P0.7 million in 2019. These are presented as part of Foreign currency gains (losses) - net in the statements of profit or loss.

*(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, 2020 and 2019, 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 in the succeeding page illustrates the sensitivity of the Company's profit before tax and equity to a reasonably possible change in interest rates of +/- 1.48% and +/- 1.71% in 2020 and 2019, 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.

	Increase		Decrease	
	2020	2019	2020	2019
	1.48%	1.71%	1.48%	1.71%
Effect in profit before tax	P 2,793,424	P 858,093	(P 2,793,424)	(P 858,093)
Effect in equity	1,955,397	600,665	( 1,955,397)	( 600,665)

## 21.2 Credit Risk

Credit risk is the risk that counterparty may fail to discharge an obligation to the Company. The Company continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Company's policy is to deal only with creditworthy counterparties.

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

	Notes	2020	2019
Cash and cash equivalents	5	P 188,196,658	P 56,456,379
Trade receivables - net	6	248,782,201	241,694,083
Security deposits	10	<u>3,695,651</u>	<u>3,802,651</u>
		<u><b>P 440,674,510</b></u>	<u><b>P 301,953,113</b></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, 2020 and 2019, respectively, and the corresponding historical credit losses experienced within such period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified that the construction materials wholesale price index in 2020 and the construction materials retail price index in 2019 were the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The Company identifies a default when the receivables become credit impaired or when the customer has not able to settle the receivables within the normal credit terms of 30 to 90 days, depending on the terms with customers; hence, these receivables were already considered as past due on its contractual payment. In addition, the Company considers qualitative assessment in determining default such as in instances where the customer is unlikely to pay its obligations and is deemed to be in significant financial difficulty.

The loss allowance for trade receivables as at December 31, 2020 and 2019, which was determined based on months past due, is 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, 2020</b>				
Expected loss rate	0.00%	100.00%	100.00%	
Gross carrying amount	P 248,782,201	P 1,502,248	P 13,473,825	P 263,758,274
Loss allowance	-	1,502,248	13,473,825	14,976,073
<b>December 31, 2019</b>				
Expected loss rate	0.00%	92.33%	100.00%	
Gross carrying amount	P 241,548,858	P 1,893,413	P 11,052,579	P 254,494,850
Loss allowance	-	1,748,188	11,052,579	12,800,767

(c) *Security deposits*

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

**21.3 Liquidity Risk**

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

The Company maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in short-term placements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities (see Note 21.2). As at December 31, the Company's financial liabilities (except lease liabilities – see Note 12) have contractual maturities which are presented in the succeeding page.

	2020					
	Current			Non-current		
	Within Six Months	Six to 12 Months	One to Five Years	Within Six Months	Six to 12 Months	One to Five Years
Trade and other payables (except Advances from customers and tax-related payables)	P	232,422,938	P	-	P	-
Loans and mortgage payables		1,538,581		1,313,154		4,975,448
Advances from a stockholder		-		-		46,057
	<b>P</b>	<b>233,961,519</b>	<b>P</b>	<b>1,313,154</b>	<b>P</b>	<b>5,021,505</b>
	2019					
	Current			Non-current		
	Within Six Months	Six to 12 Months	One to Five Years	Within Six Months	Six to 12 Months	One to Five Years
Trade and other payables (except Advances from customers and tax-related payables)	P	246,799,324	P	-	P	-
Loans and mortgage payables		1,941,004		1,940,337		7,835,981
Advances from a stockholder		-		-		46,057
	<b>P</b>	<b>248,740,328</b>	<b>P</b>	<b>1,940,337</b>	<b>P</b>	<b>7,882,038</b>

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

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

### 22.1 Carrying Amounts and Fair Values by Category

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

	Notes	2020		2019	
		Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets</b>					
Financial assets at amortized cost:					
Cash and cash equivalents	5	P 188,196,658	P 188,196,658	P 56,456,379	P 56,456,379
Trade and other receivables - net	6	248,782,201	248,782,201	241,694,083	241,694,083
Security deposits	10	3,695,651	3,695,651	3,802,651	3,802,651
		<b>P 440,674,510</b>	<b>P 440,674,510</b>	<b>P 301,953,113</b>	<b>P 301,953,113</b>
<b>Financial Liabilities</b>					
Financial liabilities at amortized cost:					
Trade and other payables (except Advances from customers and tax-related payables)	11	P 233,422,938	P 233,422,938	P 246,799,324	P 246,799,324
Lease liabilities	12	22,704,534	22,704,534	44,187,083	44,187,083
Loans and mortgage payables	11	7,042,228	7,042,228	10,109,651	10,109,651
Advances from a stockholder	17	46,057	46,057	46,057	46,057
		<b>P 263,215,757</b>	<b>P 263,215,757</b>	<b>P 301,142,115</b>	<b>P 301,142,115</b>

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

### ***22.2 Offsetting Financial Assets and Financial Liabilities***

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 21). In the absence of such an election, financial assets and liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

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

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

### ***23.1 Fair Value Hierarchy***

In accordance with PFRS 13, *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.

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b><u>December 31, 2020</u></b>				
<i>Financial assets:</i>				
Cash and cash equivalents	P188,196,658	P -	P -	P 188,196,658
Trade receivables - net	-	-	248,782,201	248,782,201
Security deposits	<u>-</u>	<u>-</u>	<u>3,695,651</u>	<u>3,695,651</u>
	<b><u>P188,196,658</u></b>	<b><u>P -</u></b>	<b><u>P252,477,852</u></b>	<b><u>P 440,674,510</u></b>
<i>Financial liabilities:</i>				
Trade and other payables	P -	P -	P 233,422,938	P 233,422,938
Lease liabilities	-	-	22,704,534	22,704,534
Loans and mortgage payables	-	-	7,042,228	7,042,228
Advances from a stockholder	<u>-</u>	<u>-</u>	<u>46,057</u>	<u>46,057</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 263,215,757</u></b>	<b><u>P263,215,757</u></b>
<b><u>December 31, 2019</u></b>				
<i>Financial assets:</i>				
Cash and cash equivalents	P 56,456,379	P -	P -	P 56,456,379
Trade receivables - net	-	-	241,694,083	241,694,083
Security deposits	<u>-</u>	<u>-</u>	<u>3,802,651</u>	<u>3,802,651</u>
	<b><u>P 56,456,379</u></b>	<b><u>P -</u></b>	<b><u>P245,496,734</u></b>	<b><u>P 301,953,113</u></b>
<i>Financial liabilities:</i>				
Trade and other payables	P -	P -	P 246,799,324	P 246,799,324
Lease liabilities	-	-	44,187,083	44,187,083
Loans and mortgage payables	-	-	10,109,651	10,109,651
Advances from a stockholder	<u>-</u>	<u>-</u>	<u>46,057</u>	<u>46,057</u>
	<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 301,142,115</u></b>	<b><u>P301,142,115</u></b>

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

The fair value of the Company's land amounting to P326.6 million as of December 31, 2020 and 2019 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 2020 and 2019.

## 24. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return to 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>2020</u>	<u>2019</u>	<u>2018</u>
Total liabilities	<b>P 358,043,348</b>	P 389,490,965	P 240,005,675
Total equity	<u><b>1,278,660,924</b></u>	<u>1,179,056,757</u>	<u>1,074,377,987</u>
Debt-to-equity ratio	<u><b>0.28 : 1.00</b></u>	<u>0.33 : 1.00</u>	<u>0.22 : 1.00</u>

There were no internally and externally imposed capital requirements to be complied with as of December 31, 2020 and 2019.

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.

## 25. 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 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

### ***25.1 Requirements under RR No. 15-2010***

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No.15-2010 are presented below and in the succeeding pages.

#### *(a) Output VAT*

In 2020, the Company declared output VAT as follows:

	<u>Tax Base</u>	<u>Output VAT</u>
Sale of goods:		
Taxable sales	P 759,608,652	P 91,153,038
Zero-rated sales	<u>358,079,900</u>	<u>-</u>
	<u><b>P1,117,688,552</b></u>	<u><b>P 91,153,038</b></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 2020 are presented below.

Balance at beginning of year	P 104,166,413
Goods other than capital goods	52,252,105
VAT on importation of goods	21,574,446
Services lodged under other accounts	14,371,951
Capital goods subject to amortization	670,850
Change in deferred input VAT	2,556,323
Capital goods not subject to amortization	116,072
Applied against output VAT	( <u>91,153,038</u> )
Balance at end of year	<u>P 104,555,122</u>

The outstanding balance of input VAT is presented under Prepayments and Other Current Assets in the 2020 statement of financial position.

Deferred input VAT amounting to P4,970,453 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 in the 2020 statement of financial position.

(c) *Taxes on Importation*

In 2020, the total landed cost of the Company's importations for use in business amounted to P181,521,217. This also includes customs duties and tariff fees totalling to P1,615,432 which are capitalized as part of the cost of the raw materials inventory and machineries, factory and other equipment.

(d) *Excise Tax*

The Company paid P129,600 for excise taxes during the year for the importation of lubricants.

(e) *Documentary Stamp Tax*

Documentary stamp taxes (DST) paid and accrued in 2020 is presented below.

Bank transactions	P 1,607,053
Others	<u>331,579</u>
	<u>P 1,938,632</u>



(f) *Taxes and Licenses*

The composition of Taxes and licenses in 2020 is shown below.

Registration and license fees	P	5,324,293
Real property tax		2,385,427
DST		1,938,632
Residence tax		23,417
Miscellaneous		<u>281,563</u>
	P	<u>9,953,332</u>

The amount of Taxes and licences is presented as part of Other Operating Expenses in the 2020 statement of profit or loss.

(g) *Withholding Taxes*

The details of total withholding taxes in 2020 are shown below.

Expanded	P	7,383,302
Compensation and benefits		7,074,954
Final tax on dividends		<u>2,333,966</u>
	P	<u>16,792,222</u>

(h) *Deficiency Tax Assessments*

In 2020, the Company has final deficiency tax assessment for the taxable period January 1, 2019 to June 30, 2019. Pursuant to the Company's policy of addressing such actions in line with prudent business practice, the Company has engaged tax counsels and advisors in relation to this matter. As of December 31, 2020, the deficiency tax assessment is still under protest. Management believes that the Company has enough basis in law, Supreme Court and Court of Tax Appeals decisions and evidence to support their claim; hence, no provisions were recognized in the financial statements.

Other than the foregoing, as of December 31, 2020, the Company does not have any other final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

**25.2 Requirements under RR No. 34-2020**

RR 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation (TPD) and other supporting documents for related party transactions. The Company is not required to prepare and submit TPD and other supporting documents as the Company did not meet the materiality thresholds under Section 3 of RR No. 34-2020.

# **Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements**

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Crown Asia Chemicals Corporation (the Company) for the year ended December 31, 2020, on which we have rendered our report dated March 2, 2021. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Revised Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Company's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **PUNONGBAYAN & ARAULLO**



**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347  
TIN 257-622-627  
PTR No. 8533233, January 4, 2021, Makati City  
SEC Group A Accreditation  
Partner - No. 121347-SEC (until Dec. 31, 2023)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 2, 2021

**CROWN ASIA CHEMICALS CORPORATION**  
**List of Supplementary Information**  
**December 31, 2020**

<u>Schedule</u>	<u>Content</u>	<u>Page No.</u>
<b>Schedules Required under Annex 68-J of the Revised Securities Regulation Code Rule 68</b>		
A	Financial Assets Financial Assets at Fair Value Through Profit or Loss Financial Assets at Fair Value Through Other Comprehensive Income	N/A
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	1
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	N/A
D	Long-term Debt	2
E	Indebtedness to Related Parties	3
F	Guarantees of Securities of Other Issuers	N/A
G	Capital Stock	4
<b>Others Required Information</b>		
	Reconciliation of Retained Earnings Available for Dividend Declaration	5
	Map Showing the Relationship Between the Company and its Related Entities	N/A

**CROWN ASIA CHEMICALS CORPORATION**  
**Schedule B**  
**Amounts Receivable from Directors, Officers, Employees,**  
**Related Parties and Principal Stockholders (Other than Related Parties)**  
**December 31, 2020**  
*(Amounts in Philippine Pesos)*

Name	Balance at Beginning of Period	Additions	Deductions		Ending Balance		Balance at End of Period
			Amounts Collected	Written Off	Current	Non-current	
Asean Timber Corp.	P 6,111,574	P 23,920,225	P 21,811,522	P -	P 8,220,277	P -	P 8,220,277
Guiguinto Integrated Woods Industry Corp.	6,024	29,866	28,156	-	7,734	-	7,734
W.T. Derrick Realty Corporation	-	850,688	850,688	-	-	-	-
Husky Plastics Corp.	-	367,506	367,506	-	-	-	-
<i>Total Accounts Receivable</i>	<b>P 6,117,598</b>	<b>P 25,168,285</b>	<b>P 23,057,872</b>	<b>P -</b>	<b>P 8,228,011</b>	<b>P -</b>	<b>P 8,228,011</b>
W.T. Derrick Realty Corporation	P 405,704	P 22,476	P 169,402	P -	P 258,778	P -	P 258,778
<i>Total Security Deposit</i>	<b>P 405,704</b>	<b>P 22,476</b>	<b>P 169,402</b>	<b>P -</b>	<b>P 258,778</b>	<b>P -</b>	<b>P 258,778</b>

**CROWN ASIA CHEMICALS CORPORATION**

**Schedule D**

**Long-Term Debt**

**December 31, 2020**

*(Amounts in Philippine Pesos)*

<b>Title of Issue and Type of Obligation</b>	<b>Amount Authorized by Indenture</b>	<b>Amount Shown Under Caption "Loans and Mortgage Payables" in Related Statement of Financial Position</b>	<b>Amount Shown Under Caption "Mortgage Payables" in Related Statement of Financial Position</b>
Car loans	P 7,042,228	P 2,480,902	P 4,561,326

**Supplementary information on Long-term Debt**

*The Company entered into car loan agreements with local banks for the acquisition of certain transportation equipment and motor vehicles, which are then mortgaged to the banks.*

**CROWN ASIA CHEMICALS CORPORATION**  
**Schedule E**  
**Indebtedness to Related Parties**  
**December 31, 2020**  
*(Amounts in Philippine Pesos)*

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
<i>Related parties under common ownership:</i>		
Husky Plastics Corp.		
Advances obtained	P -	P -
Purchase of goods and services	1,479,615	2,836,523
Asean Timber Corp.	162,560	246,765
	<u>P 1,642,175</u>	<u>P 3,083,288</u>
<i>Stockholder -</i>		
Tita P. Villanueva	<u>P 46,057</u>	<u>P 46,057</u>

CROWN ASIA CHEMICALS CORPORATION  
Schedule G  
Capital Stock  
December 31, 2020

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown Under the Related Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held By		
				Related Parties	Directors, Officers and Employees	Others
Common	1,300,000,000	610,639,000	-	4,355,000	307,690,246	298,593,754

**CROWN ASIA CHEMICALS CORPORATION**  
**KM. 33, MCARTHUR HIGHWAY**  
**BO. TUKTUKAN, GUIGUINTO BULACAN**  
**Reconciliation of Retained Earnings Available for Dividend Declaration**  
**For Year Ended December 31, 2020**

<b>Unappropriated Retained Earnings of the Company at Beginning of Year</b>	P	408,352,960
<b>Prior Periods' Reconciling Item from Deferred Tax Asset</b>	(	<u>6,525,447</u> )
<b>Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year</b>		401,827,513
<b>Net Profit of the Company Realized during the Year</b>		
<b>Net profit per audited financial statements</b>	P	121,249,089
<b>Non-actual/unrealized income:</b>		
Deferred tax income from deferred tax asset recognized during the year	(	1,654,126)
Unrealized foreign exchange gain (except those attributable to Cash and Cash Equivalents), net of tax	(	<u>3,316,412</u> )
		116,278,551
<b>Less other items:</b>		
Cash dividends declared and paid during the year	(	24,443,639)
Treasury shares	(	<u>41,096,031</u> )
<b>Unappropriated Retained Earnings Available for Dividend Declaration at End of Year</b>	<b>P</b>	<b><u>452,566,394</u></b>

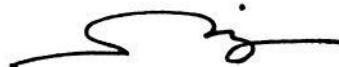


# **Report of Independent Auditors on Components of Financial Soundness Indicators**

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Crown Asia Chemicals Corporation (the Company) for the years ended December 31, 2020 and 2019, on which we have rendered our report dated March 2, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purposes of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Company's financial statements as of December 31, 2020 and 2019 and for each of the two years in the period ended December 31, 2020 and 2019 and no material exceptions were noted.

## **PUNONGBAYAN & ARAULLO**



**By: John Endel S. Mata**  
Partner

CPA Reg. No. 0121347  
TIN 257-622-627  
PTR No. 8533233, January 4, 2021, Makati City  
SEC Group A Accreditation  
Partner - No. 121347-SEC (until Dec. 31, 2023)  
Firm - No. 0002 (until Dec. 31, 2024)  
BIR AN 08-002551-040-2019 (until Dec. 15, 2022)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

March 2, 2021

**CROWN ASIA CHEMICALS CORPORATION**  
**Supplemental Schedule of Financial Soundness Indicators**  
**December 31, 2020 and 2019**

Ratio	Formula	2020	Formula	2019
Current ratio	Total Current Assets divided by Total Current Liabilities  Total Current Assets P 1,040,020,522 Divide by: Total Current Liabilities 284,461,415 Current ratio 3.66	3.66	Total Current Assets divided by Total Current Liabilities  Total Current Assets P 926,525,145 Divide by: Total Current Liabilities 289,026,716 Current ratio 3.21	3.21
Acid test ratio	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets P 1,040,020,522 Less: Inventories ( 469,233,996) Other Current Assets ( 106,582,764) Quick Assets 464,203,762 Divide by: Total Current Liabilities 284,461,415 Acid test ratio 1.63	1.63	Quick assets (Total Current Assets less Inventories and Other Current Assets) divided by Total Current Liabilities  Total Current Assets P 926,525,145 Less: Inventories ( 495,990,475) Other Current Assets ( 118,512,011) Quick Assets 312,022,659 Divide by: Total Current Liabilities 289,026,716 Acid test ratio 1.08	1.08
Solvency ratio	Total Liabilities divided by Total Assets  Total Liabilities P 358,043,348 Divide by: Total Assets 1,636,704,272 Solvency ratio 0.22	0.22	Total Liabilities divided by Total Assets  Total Liabilities P 389,490,965 Divide by: Total Assets 1,568,547,722 Solvency ratio 0.25	0.25
Debt-to-equity ratio	Total Liabilities divided by Total Equity  Total Liabilities P 358,043,348 Divide by: Total Equity 1,278,660,924 Debt-to-equity ratio 0.28	0.28	Total Liabilities divided by Total Equity  Total Liabilities P 389,490,965 Divide by: Total Equity 1,179,056,757 Debt-to-equity ratio 0.33	0.33
Assets-to-equity ratio	Total Assets divided by Total Equity  Total Assets P 1,636,704,272 Divide by: Total Equity 1,278,660,924 Assets-to-equity ratio 1.28	1.28	Total Assets divided by Total Equity  Total Assets P 1,568,547,722 Divide by: Total Equity 1,179,056,757 Assets-to-equity ratio 1.33	1.33
Interest rate coverage ratio	Earnings before interest and taxes (EBIT) divided by Interest expense  EBIT P 178,057,340 Divide by: Interest expense 4,765,295 Interest rate coverage ratio 37.37	37.37	Earnings before interest and taxes (EBIT) divided by Interest expense  EBIT P 196,217,854 Divide by: Interest expense 3,869,838 Interest rate coverage ratio 50.70	50.70
Return on equity	Net Profit divided by Total Equity  Net Profit P 121,249,089 Divide by: Total Equity 1,278,660,924 Return on equity 0.09	0.09	Net Profit divided by Total Equity  Net Profit P 136,414,653 Divide by: Total Equity 1,179,056,757 Return on equity 0.12	0.12
Return on assets	Net Profit divided by Total Assets  Net Profit P 121,249,089 Divide by: Total Assets 1,636,704,272 Return on assets 0.07	0.07	Net Profit divided by Total Assets  Net Profit P 136,414,653 Divide by: Total Assets 1,568,547,722 Return on assets 0.09	0.09
Net profit margin	Net Profit divided by Total Revenue  Net Profit P 121,249,089 Divide by: Total Revenue 1,117,688,552 Net profit margin 0.11	0.11	Net Profit divided by Total Revenue  Net Profit P 136,414,653 Divide by: Total Revenue 1,433,402,683 Net profit margin 0.10	0.10

Ratio	Formula	2020	Formula	2019
Gross profit margin	Gross Profit divided by Total Revenue	0.31	Gross Profit divided by Total Revenue	0.27
	Gross Profit P 345,538,264		Gross Profit P 393,396,541	
	Divide by: Total Revenue 1,117,688,552		Divide by: Total Revenue 1,433,402,683	
	Gross profit margin 0.31		Gross profit margin 0.27	
Book value per share	Total Equity divided by Outstanding Shares	2.09	Total Equity divided by Outstanding Shares	1.93
	Total Equity P 1,278,660,924		Total Equity P 1,179,056,757	
	Divide by: Outstanding Shares 610,639,000		Divide by: Outstanding Shares 612,444,000	
	Book value per share 2.09		Book value per share 1.93	
Earnings per share	Net Profit divided by Average Outstanding Shares	0.20	Net Profit divided by Average Outstanding Shares	0.22
	Net Profit P 121,249,089		Net Profit P 136,414,653	
	Divide by: Average Outstanding Shares 611,075,083		Divide by: Average Outstanding Shares 622,417,750	
	Earnings per share 0.20		Earnings per share 0.22	
Price to book value per ratio	Stock Price divided by Book Value per Share	0.89	Stock Price divided by Book Value per Share	1.11
	Stock Price P 1.87		Stock Price P 2.15	
	Divide by: Book Value per Share 2.09		Divide by: Book Value per Share 1.93	
	Price to book value per ratio 0.89		Price to book value per ratio 1.11	
Price to earnings ratio	Stock Price divided by Earnings per Share	9.35	Stock Price divided by Earnings per Share	9.77
	Stock Price P 1.87		Stock Price P 2.15	
	Divide by: Earnings per Share 0.20		Divide by: Earnings per Share 0.22	
	Price to earnings ratio 9.35		Price to earnings ratio 9.77	