

**COVER SHEET**  
for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

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

F	I	R	S	T		C	A	V	I	T	E		I	N	D	U	S	T	R	I	A	L		E	S	T	A	T	E
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Form Type

A	A	F	S
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Department requiring the report

M	R	D	
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Secondary License Type, If Applicable

N	O	N	E
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**COMPANY INFORMATION**

Company's Email Address

kolinphi.com.ph
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Company's Telephone Number/s

831-0856
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Mobile Number

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No. of Stockholders

16
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Annual Meeting  
Month/Day

3RD WEDNESDAY OF JUNE
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Fiscal Year  
Month/Day

31-Dec
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**CONTACT PERSON INFORMATION**

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

WILHELM ALBALADEJO
--------------------

Email Address

walbadejo@kolinphil.com.ph
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Telephone Number/s

851-2711,12 or 15
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Mobile Number

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**CONTACT PERSON's ADDRESS**

1854 Sta. Rita St., Guadalupe Nuevo, Makati City
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**Note 1:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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

**KOLIN PHILIPPINES INTERNATIONAL, INC**

FINANCIAL STATEMENTS AS OF DECEMBER 31, 2021 AND 2020

**KOLIN PHILIPPINES INTERNATIONAL, INC.**

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DECEMBER 31, 2021 AND 2020**

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

The management of **KOLIN PHILIPPINES INTERNATIONAL, INC.** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 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 but 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.

KL Siy & Associates, the independent auditors, 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.

  
**DAVID C. GO**

Chairman of the Board

  
**TONG YONG TSENG**  
President

  
**EFREN S. CHUA YAP**  
Treasurer

Signed this APR 11 2022 day of \_\_\_\_\_.

**KOLIN PHILS. INT'L., INC.**

Plant and Head Office:

Bldg. 3 Lt 5 Main Drive, FCIE Compound,  
Brgy. Langkaan I, Dasmariñas, Cavite

Tel.: (632) 8749-2118

Fax: (046) 402-0793

www.kolinphil.com.ph / kolinphilippines

Operations Office:

1854 Sta. Rita St., Guadalupe Nuevo,  
Makati City

Tel.: (632) 8851-2711, 12 or 15

Fax: (632) 8852-2170

Sales Dept. Fax: (632) 8852-4791



*Bringing comfort to your home.*



# KL Siy & Associates

Assurance Consultancy Taxation Services

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The Board of Directors

## **KOLIN PHILIPPINES INTERNATIONAL, INC**

First Cavite Industrial Estate, Brgy Lankaan, Cavite

We have audited the accompanying financial statements of Kolin Philippines International, Inc. as of December 31, 2021, on which we have rendered our report dated April 12, 2022.

1. In compliance with Revenue Regulation V-20, we are stating that we are not related by consanguinity nor affinity to the president, manager or principal stockholder of the Company; and the taxes paid or accrued by the Company during the year are shown in Note 22.3— Supplementary information in compliance with RR15 – 2010.
2. In compliance with SRC Rule 68, we are stating that said company has a total number of Sixteen (16) stockholders owning one hundred (100) or more shares each.

## **KL SIY & ASSOCIATES**

BOA Accreditation No. 0668

Effective until March 22, 2024

TIN No. 215-665-658-000

BIR Accreditation No. 07-100131-001-2020

Effective until April 23, 2023

IC Accreditation No. 0668-IC (Group B)

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 0668-BSP

Effective until December 31, 2024

By:



**KATHLEEN MARY L. SIY**

Managing Partner

CPA Certificate No. 45337

BOA Accreditation No. 0668

Effective until March 22, 2024

BIR Accreditation No. 07-100131-001-2020

Effective until April 13, 2023

IC Accreditation No. 45337-IC

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 45337-BSP

Effective until December 31, 2024

TIN No. 303-141-768-000

PTR NO. 8131509, January 11, 2022, Pasig City

April 12, 2022

Ortigas Center, Pasig City

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Board of Directors

**KOLIN PHILIPPINES INTERNATIONAL,  
INC.**

First Cavite Industrial Estate,  
Brgy, Lankaan, Cavite

***Opinion***

We have audited the financial statements of Kolin Philippines International, Inc. (the Company) which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, 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 condition of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

***Basis for Opinion***

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, the Code of Ethics for Professional Accountants 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.

***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 PFRSs, 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.



## *Auditor's 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 auditor's 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 PSAs 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 PSAs, 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 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 auditor's 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 auditor's 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.

***Report on the Supplementary Information Under Revenue Regulation 15-2010***

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes, duties and license fees in Note 22.3 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as whole.

**KL SIY & ASSOCIATES**

BOA Accreditation No. 0668

Effective until March 22, 2024

TIN No. 215-665-658-000

BIR Accreditation No. 07-100131-001-2020

Effective until April 23, 2023

IC Accreditation No. 0668-IC (Group B)

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 0668-BSP

Effective until December 31, 2024

By:



**KATHLEEN MARY L. SIY**

Managing Partner

CPA Certificate No. 45337

BOA Accreditation No. 0668

Effective until March 22, 2024

BIR Accreditation No. 07-100131-001-2020

Effective until April 13, 2023

IC Accreditation No. 45337-IC

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 45337-BSP

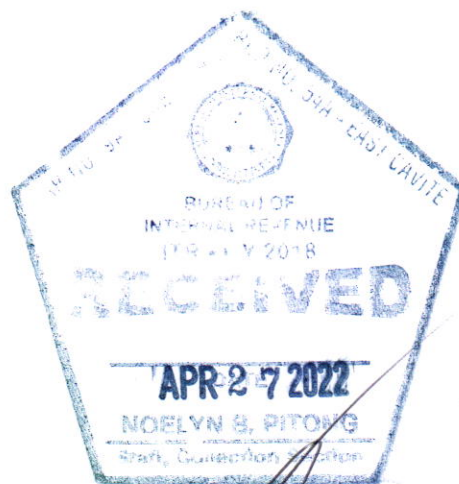
Effective until December 31, 2024

TIN No. 303-141-768-000

PTR NO. 8131509, January 11, 2022, Pasig City

April 12, 2022

Ortigas Center, Pasig City





**KOLIN PHILIPPINES INTERNATIONAL, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 AND 2020**  
**(Amounts in Philippine Pesos)**

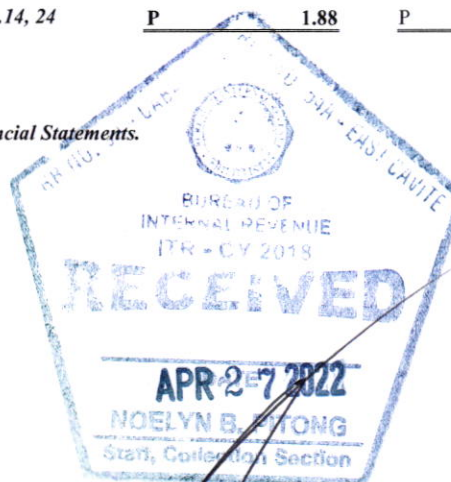
	Notes	2021	Restated 2020
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Financial assets at amortized cost			
Cash and cash equivalents	3.1, 3.9, 5	P 357,174,329	P 292,966,821
Trade and other receivables	3.1, 3.9, 7	319,484,266	284,150,190
Investments in bonds - short-term	3.1, 6	29,993,822	-
Refund Asset	3.5, 3.6, 8	2,472,010	2,472,010
Inventories	3.2, 9	425,540,658	566,494,610
Prepayments and other assets	13	6,200,428	885,424
Total Current Assets		<u>1,140,865,513</u>	<u>1,146,969,055</u>
<b>NONCURRENT ASSETS</b>			
Financial assets at amortized cost			
Investment in bonds	3.1, 6	50,000,000	50,000,000
Property, Plant and Equipment - net	3.3, 11	394,917,936	399,519,876
Intangible Asset	3.4, 12	1,434,408	1,223,142
Deferred Tax Assets	3.13, 22.2	22,543,686	17,761,445
Rental and other deposits	3.1, 13	2,226,819	3,313,058
Total Non-current Assets		<u>471,122,849</u>	<u>471,817,521</u>
<b>TOTAL ASSETS</b>		<b>P 1,611,988,362</b>	<b>P 1,618,786,576</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Financial liabilities at amortized cost			
Trade and Other Payables	3.1, 3.6, 14	P 122,565,299	P 126,205,333
Short-Term Loans	3.1, 16.1	359,622,177	369,382,228
Other Non-trade Payables	3.1, 15	11,895,414	13,509,850
Income Tax Payable	3.13, 4, 22	-	5,963,462
Due to Government Agencies	15.2, 15.3, 15.4	4,134,197	6,415,313
Total current liabilities		<u>498,217,087</u>	<u>521,476,186</u>
<b>NONCURRENT LIABILITIES</b>			
Financial liabilities at amortized cost			
Retirement Liability	3.7, 26.3	38,738,676	46,068,021
Long-Term Loans	3.1, 3.14, 16.3, 23	18,694,403	18,694,403
Total Non-current liabilities		<u>57,433,079</u>	<u>64,762,424</u>
<b>TOTAL LIABILITIES</b>		<b>555,650,166</b>	<b>586,238,610</b>
Paid-up capital	3.15, 25	500,000,000	500,000,000
Additional paid-in capital	3.15, 25	3,544,803	3,544,803
Retained earnings	3.15, 25	556,840,830	542,596,272
Reserves	3.15, 25	(4,047,437)	(13,593,109)
<b>STOCKHOLDERS' EQUITY</b>		<b>1,056,338,196</b>	<b>1,032,547,966</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>P 1,611,988,362</b>	<b>P 1,618,786,576</b>

See Notes to Financial Statements.

**KOLIN PHILIPPINES INTERNATIONAL, INC.**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
SALES	3.6, 4.1, 17	P 1,684,554,914	P 1,763,473,514
COST OF SALES AND SERVICES	3.6, 18	( 1,296,680,479 )	( 1,329,743,842 )
GROSS PROFIT		387,874,435	433,729,672
OTHER INCOME	19	15,495,661	26,151,362
SELLING EXPENSES	20	( 72,356,787 )	( 100,843,211 )
GENERAL and ADMINISTRATIVE EXPENSE	21	( 207,187,622 )	( 190,718,949 )
OTHER EXPENSES	19	-	( 219,284 )
FINANCE COSTS	16.1	( 7,439,205 )	( 10,161,941 )
PROFIT BEFORE TAX		116,386,482	157,937,649
INCOME TAX (EXPENSE) BENEFIT	3.13, 22.1	( 22,141,924 )	( 48,044,114 )
PROFIT FOR THE YEAR		94,244,558	109,893,535
OTHER COMPREHENSIVE INCOME - net			
Actuarial gain/ (loss) on retirement benefit obligation	25.3	12,727,562	( 8,328,237 )
Income tax relating to these items		( 3,181,891 )	2,498,471
		9,545,672	( 5,829,766 )
TOTAL COMPREHENSIVE INCOME		P 103,790,230	P 104,063,769
EARNINGS PER SHARE	3.14, 24	P 1.88	P 2.20

See Notes to Financial Statements.



**KOLIN PHILIPPINES INTERNATIONAL, INC.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
*(Amount in Philippine Pesos)*

		Share Capital		Additional		Cumulative	Retained Earnings		
	Notes	No. of Shares	Paid - up	Paid-in Capital		Actuarial	Appropriated	Unappropriated	Total
Balances at January 1, 2020	3.15, 25.1	50,000,000	P 500,000,000	P 3,544,803	( P 7,763,343 )	P 80,000,000	P 436,255,026	P 1,012,036,486	
Appropriation for dividends	25.5	-	-	-	-	80,000,000	( 80,000,000 )	-	
2019 Dividends paid	25.5	-	-	-	-	( 80,000,000 )	-	( 80,000,000 )	
Total Comprehensive Income	25.3	-	-	-	( 5,829,766 )	-	109,893,535	104,063,769	
Balances at December 31, 2020		<u>50,000,000</u>	<u>P 500,000,000</u>	<u>P 3,544,803</u>	<u>( P 13,593,109 )</u>	<u>P 80,000,000</u>	<u>P 466,148,561</u>	<u>P 1,036,100,255</u>	
Prior Period Adjustments	25.6	-	-	-	-	-	( 3,552,289 )	( 3,552,289 )	
Adjusted Balances at December 31, 2020		<u>50,000,000</u>	<u>P 500,000,000</u>	<u>P 3,544,803</u>	<u>( P 13,593,109 )</u>	<u>P 80,000,000</u>	<u>P 462,596,272</u>	<u>P 1,032,547,966</u>	
Balances at January 1, 2021	3.15, 25.1	50,000,000	P 500,000,000	P 3,544,803	( P 13,593,109 )	P 80,000,000	P 462,596,272	P 1,032,547,966	
Appropriation for dividends	25.5	-	-	-	-	-	-	-	
2020 Dividends paid	25.5	-	-	-	-	( 80,000,000 )	-	( 80,000,000 )	
Total Comprehensive Income	25.3	-	-	-	9,545,672	-	94,244,558	103,790,230	
Balances at December 31, 2021		<u>50,000,000</u>	<u>P 500,000,000</u>	<u>P 3,544,803</u>	<u>( P 4,047,437 )</u>	<u>P -</u>	<u>P 556,840,830</u>	<u>P 1,056,338,196</u>	

See Notes to Financial Statements.

**KOLIN PHILIPPINES INTERNATIONAL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**  
*(Amounts in Philippine Pesos)*

	Notes	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	P	116,386,482	P 157,937,649
Adjustments for:			
Depreciation expense	11, 18, 21	18,714,159	24,075,280
Amortization expense	12, 21	865,512	636,588
Pension Expense	21, 26.3	8,898,217	6,454,111
Provision for credit losses	7, 21	1,021,455	275,436
Provision for inventory obsolescence	9, 18	-	2,376,578
Unrealized forex (gain) loss	5, 19	( 741,074 )	219,284
Recovery of bad debts	7	-	( 3,415,292 )
Interest income	5, 19	( 4,546,824 )	( 4,640,694 )
Operating income (loss) before working capital changes		140,597,927	183,918,941
Decrease (Increase) in receivables		( 36,355,531 )	189,353,664
Decrease (Increase) in inventory		140,953,952	( 61,484,110 )
Decrease (Increase) in refund asset		-	32,469
Decrease (Increase) in other assets		( 4,782,241 )	-
Decrease (Increase) in prepayment and other assets		( 5,315,004 )	7,327,767
Increase (Decrease) in trade payables		( 3,640,034 )	( 11,811,036 )
Increase (Decrease) in other payables		( 16,540,904 )	16,326,896
Cash generated from operations		214,918,165	323,664,590
Cash paid for income taxes		( 22,141,924 )	( 51,713,216 )
Net Cash (Used in) Provided by operating activities		192,776,241	271,951,375
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	5, 19	4,546,824	4,640,694
Acquisitions of property and equipment	11	( 14,112,219 )	( 30,369,024 )
Acquisition of intangible	12	( 1,076,778 )	( 686,741 )
Proceeds from (acquisition of) held to maturity investments-Time Deposit	6	-	51,370,000
Acquisition of short term investments - bonds	6	( 29,993,822 )	-
Decrease (Increase) in other non-current assets	13	1,086,239	( 2,882,061 )
Net Cash Provided by (used in) investing activities		( 39,549,756 )	22,072,867
<b>CASH FLOWS FROM FINANCING ACTIVITIES ACTIVITIES</b>			
Proceeds from:			
Short-term borrowings	16.1	338,676,271	1,017,597,790
Payments of:			
Short-term borrowings	16.1	( 348,436,322 )	( 1,083,388,062 )
Cash dividends paid	25.5	( 80,000,000 )	( 80,000,000 )
Net Cash Provided by (used in) investing activities		( 89,760,051 )	( 145,790,273 )
Effect of foreign exchange gains (losses)		741,074	( 219,284 )
<b>NET INCREASE (DECREASE) IN CASH</b>		64,207,508	148,014,685
<b>CASH AT BEGINNING OF YEAR</b>	5	292,966,821	144,952,137
<b>CASH AT END OF YEAR</b>	5	P 357,174,329	P 292,966,821

*See Notes to Financial Statements.*



**KOLIN PHILIPPINES INTERNATIONAL, INC.**

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**Notes to Financial Statements**

**December 31, 2021 and 2020**

*(Amounts in Philippine Pesos)*

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**Note 1 – CORPORATE INFORMATION**

Kolin Philippines International, Inc. (the “Company”), was incorporated and registered with the Securities and Exchange Commission (SEC) on July 24, 1995 under the laws of the Philippines with SEC Registration No. ASO95007068. Its primary purpose is to engage in, operate, conduct and maintain the business of manufacturing, importing, assembling, selling, or otherwise dealing in wholesale such products as: air – conditioning units, television sets and other electronic equipment or product of similar nature, and any and all equipment, materials, supplies, used or employed in or related to the manufacture of such finished products.

On April 24, 2018, the SEC issued the certificate on Amended Articles of Incorporation of the Company on the increase of authorized capital stock from P240,000,000 divided into 24,000,000 shares with par value of Ten pesos (P10.00) to P500,000,000 divided into 50,000,000 shares.

The registered office of the Company is located at FCIE Barrio Langkaan, Dasmarinas, Cavite and has total employees of five hundred forty nine (549) and five hundred eighty-seven (587) as of December 31, 2021 and 2020, respectively. The Company also has seven (7) service centers and one (1) warehouse plant.

The financial statements of the Company for the year ended December 31, 2021 (including the comparatives for the year ended December 31, 2020) were authorized for issue by the Company’s Board of Directors on April 11, 2022. The Board of Directors is empowered to make revisions after said date of issue.

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**NOTE 2 – BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

*(a) Presentation of Financial Statements*

The Company’s financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency. All financial information presented in Philippine Peso is rounded to the nearest peso except when otherwise stated.

Assets and liabilities are presented in the Statements of Financial Position in a current/noncurrent distinction.

The Statements of Comprehensive Income presents an analysis of expenses using a classification based on their functions.

The Company changes the presentation of its financial statements only if the changed presentation provides information that is reliable and more relevant to its users and the revised structure is likely to continue so that comparability is not impaired.

*(b) Statement of Compliance*

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 (IASB).

PFRS consist of:

- (i) PFRS – corresponding to International Financial Reporting Standards;
- (ii) Philippine Accounting Standards (PAS) – corresponding to International Accounting Standards; and,
- (iii) Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), of the IASB which are adopted by the FRSC.

*(c) Basis of Measurement*

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The financial statements are prepared on the accrual basis of accounting and on the assumption that the Company is a going concern and will continue operation for the foreseeable future.

*(d) Use of Judgments and Estimates*

The preparation of the Company's financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts therein and in the accompanying notes. The estimates and assumptions used are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates, 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.

Estimates and judgments 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.

*Changes in Accounting Policies*

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of certain new PFRS and amendments to existing PFRS and PAS which became effective for current period on or after January 1, 2021.

The Company changes an accounting policy only if the change is (a) required by a Standard or an Interpretation; or (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the Company's financial position, financial performance or cash flows.



### ***Impact of New Amendments and Interpretations to Existing Standards***

There are new and revised accounting standards, amendments and interpretations to existing standards that have been published by IASB and adopted by FRSC which are mandatory for accounting periods on or after January 1, 2021. Except as otherwise stated, the adoption of the new standards, amendments and interpretations, did not have a significant effect on the Company's financial statements. These standards are as follows:

#### ***Future Changes in Accounting Policies***

The Company will adopt the following revised standards, interpretations and amendments when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

#### ***Effective January 1, 2022***

##### **Amendment to existing Standards**

Amendments to PAS 1, Presentation of Financial Statements - clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date. The right needs to be unconditional and must have substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument.

In response to COVID-19, the effective date is pending a one-year deferral to 2023, to be confirmed by the IASB Board mid-2020. Early adoption is permitted.

Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets - clarify that when assessing if a contract is onerous, the cost of fulfilling the contract includes all costs that relate directly to the contract – i.e. a full-cost approach. Such costs include both the incremental costs of the contract (i.e. costs a company would avoid if it did not have the contract) and an allocation of other direct costs incurred on activities required to fulfill the contract – e.g. contract management and supervision, or depreciation of equipment used in fulfilling the contract.

Further amendments to PFRS 3, Business Combinations - update references in IFRS 3 to the revised 2018 Conceptual Framework. To ensure that this update in referencing does not change which assets and liabilities qualify for recognition in a business combination, or create new Day 2 gains or losses, the amendments introduce new exceptions to the recognition and measurement principles in PFRS 3.

An acquirer should apply the definition of a liability in PAS 37 – rather than the definition in the Conceptual Framework – to determine whether a present obligation exists at the acquisition date as a result of past events. For a levy in the scope of IFRIC 21, the acquirer should apply the criteria in IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. In addition, the amendments clarify that the acquirer should not recognize a contingent asset at the acquisition date.

The Amendment is not applicable to the Company.

Amendments to PAS 16, Property, Plant and Equipment (PPE) – Proceeds before Intended Use - introduce new guidance. Proceeds from selling items (e.g. samples) before the related PPE is

available for its intended use can no longer be deducted from the cost of PPE. Instead such proceeds should be recognized in profit or loss, together with the costs of producing those items (to which PAS 2 applies). Accordingly, a company will need to distinguish between:

- costs of producing and selling items before the PPE is available for its intended use; and
- costs of making the PPE available for its intended use.

Making this allocation of costs may require significant estimation and judgement. Companies in the extractive industry in particular may need to monitor costs at a more granular level.

The amendments apply retrospectively but only for new PPE that reach their intended use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. They can be early adopted.

#### Annual Improvements to PFRS Standards 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of PFRS, simplify the application of PFRS1 by a subsidiary that becomes a first-time adopter of PFRS Standards later than its parent. If such a subsidiary applies PFRS 1.D16(a), then it may elect to measure cumulative translation differences at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to PFRS Standards.

Amendments to PFRS 9, Financial Instruments - clarify which fees to include in the '10 percent' test for derecognition of financial liabilities. A borrower includes only fees paid or received between itself and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

Amendments to Illustrative Examples accompanying PFRS 16, remove the illustration of payments from the lessor for lessee-owned leasehold improvements. As previously drafted, this example was not clear about whether the payments meet the definition of a lease incentive.

Amendments to PAS 41 Agriculture -remove the requirement to exclude cash flows for taxation when measuring fair value thereby aligning the fair value measurement requirements in PAS 41 with those in PFRS 13.

The amendment is not applicable to the Company.

#### *Effective in 2023*

##### PFRS 17, 'Insurance contracts'

PFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. PFRS 17 supersedes PFRS 4 Insurance Contracts as of 1 January 2023.

The standard is not applicable to the Company.



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### **Note 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all years presented unless otherwise stated.

#### **3.1 Financial Instruments**

##### *Classification and Measurement at initial recognition*

Financial assets and liabilities are classified and measured at fair value at initial recognition (adjusted in some cases for transaction costs). The exception is for trade receivables that do not contain a significant financing component, as defined by PFRS 15, Revenue from Contracts with Customers. These are measured at the transaction price (e.g. invoice price excluding costs collected on behalf of third parties, such as sales taxes). As a practical expedient, it can be presumed that a trade receivable that does not have a significant financing component if the expected term is less than one year.

Financial assets are generally classified and measured at fair value, with changes in fair value recognized in profit or loss as they arise (FVPL) unless restrictive criteria are met for classifying and measuring them at Amortised Cost or Fair Value through Other Comprehensive Income (FVOCI).

##### *Cost as the basis for estimating fair value*

In limited circumstances, cost may provide an appropriate estimate of fair value. This would be the case if insufficient more recent information is available to measure fair value or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. As at reporting date, the Company determined that since there are no available information to measure the fair value of its investment in certain foreign and domestic companies, the original cost was determined to be the appropriate estimate of fair value. (*see Notes 6 & 10.1*)

##### *Financial assets*

##### *Classification and Measurement after initial recognition*

The Company classifies its financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The classification depends on the contractual cash flow characteristics of the financial assets and the business model of the Company for managing the financial assets.

Subsequent to initial recognition, financial assets are not reclassified unless the Company changes the business model for managing financial assets. All affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

The business model refers to how the Company manages the financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The Company considers the following information in assessing the objective of the business model in which a financial asset is held at a portfolio level, which reflects the way the business is managed and information is provided to management:

- the stated policies and objectives for the portfolio and the operation of those policies in practice;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how employees of the business are compensated; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

The Company considers the contractual terms of the instrument in assessing whether the contractual cash flows are solely payments of principal and interest. The assessment includes whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The Company considers the following in making the assessment:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

For purposes of subsequent measurement, financial assets are classified in the following categories: financial assets at amortized cost, financial assets at FVOCI (with or without recycling of cumulative gains and losses) and financial assets at FVPL.

The Investment in Bonds is classified at amortised cost as at December 31, 2021. (*Note 9.2*)



#### *Categories of financial instruments*

The foregoing categories of financial instruments are more fully described below.

##### *(a) Amortized Cost*

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVPL:

- it is held within a business model with the objective of holding financial assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the financial asset is derecognized, modified or impaired.

The Company has bank deposits repayable on demand and Trade Receivables requiring payment only of fixed amounts on fixed dates.

The Company has investment in debt instruments designated at amortised cost. (*See note 6*)

##### *(b) FVOCI*

The asset is measured at fair value. The Company has no investments designated as FVOCI.

#### Financial assets at FVOCI

Interest revenue, impairment gains and losses, and a portion of foreign exchange gains and losses, are recognized in profit and loss on the same basis as for Amortized Cost assets. Changes in fair value are recognized initially in Other Comprehensive Income (OCI).

#### *Derecognition*

When the asset is derecognized or reclassified, changes in fair value previously recognized in OCI and accumulated in equity are reclassified to profit and loss on a basis that always results in an asset measured at FVOCI having the same effect on profit and loss as if it were measured at Amortized Cost.

#### Investments in equity instruments

Equity investments represents any contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Dividends represent “distributions of profits to holders of equity instruments in proportion to their holdings of a particular class of capital. Dividends are recognized when the entity’s right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognized in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in OCI. Changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired.

The Company has equity investments without readily determinable fair values. The Company’s management determined that the purchase cost is the appropriate estimate of fair values of the investment given that there are no other available information to measure fair value (*see Note 10*).

### *Derecognition*

When the asset is sold, changes in the fair value of the asset can be transferred from the equity account where OCI is accumulated to another equity account, retained earnings.

For an instrument at FVOCI, the following tests have to be met:

- The objective of the entity's business model is both to hold assets to collect cash flows and to sell ("the Business Model test"), and
- The contractual cash flows of an asset give rise to payments on specified dates that are solely payments of principal and interest ("SPPI") on the principal amount outstanding ("the SPPI test").

### *Recognition and Measurement of Impairment – Expected Credit Losses*

This applies to loans and receivables measured at amortized cost or FVOCI. Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an expected credit loss associated with it—from the moment of its origination or acquisition. Financial assets measured and classified as FVPL or qualifying equity investments (FVOCI) do not have recycling of fair value changes to profit or loss.

Expected credit losses are calculated by: (a) identifying scenarios in which a loan or receivable defaults; (b) estimating the cash shortfall that would be incurred in each scenario if a default were to happen; (c) multiplying that loss by the probability of the default happening; and (d) summing the results of all such possible default events. As a general rule, the maximum period to consider in measuring expected credit losses is the maximum contractual period (including extension options).

From the three available approaches: a general approach, a simplified approach (usually for trade receivables, contract receivables, lease receivables) and the so-called "credit adjusted approach (usually for purchased or originated credit-impaired financial assets), the Company adopted the simplified approach (provision matrix) due to short credit term given to its customers and it does not have a significant financing component. The provision matrix is based on an entity's historical default rates over the expected life of the trade receivables and is adjusted for forward-looking estimates. (See Note 28.3)

After initial recognition, the impairment allowance is adjusted, up or down, through profit or loss at each balance sheet date as the probabilities of collection and recoveries change. If the loan turns out to be fully collectible, expected losses eventually would fall to zero as the probability of non-payment declines and "impairment gains" would be recognized in profit and loss. If the loan grows riskier, the probability that a default will occur and thus expected credit losses will increase. If a default happens, and the lender suffers an actual cash shortfall, expected credit losses will equal that shortfall.

### *Write-offs*

For assets classified as Amortized Cost, an entity must write off a loan or receivable when no reasonable expectation of recovering the asset or a portion thereof (e.g., a specified percentage) exists.

### *Financial Liabilities and Equity Instruments*

#### Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.



### Financial Liabilities

Financial liabilities are recognized in the Company's financial statements when the Company becomes a party to the contractual provisions of the instrument. These are recognized initially at fair values. Transaction costs are included in the initial measurement of the Company's financial liabilities, except for any debt instruments classified at FVPL.

Financial liabilities are classified as either financial liabilities at FVPL or other financial liabilities.

#### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings and payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

#### *Subsequent measurement*

The Company classifies its financial liabilities in the following categories:

*Loans and borrowings.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss. Loans and borrowings are included under current liabilities if settlement is within twelve months from reporting period. Otherwise, these are classified as noncurrent liabilities.

Classified under this category are short term loans, long term loans and mortgage payable (except for taxes payables and other payables covered by other accounting standards). As at reporting date, the Company's other financial liabilities include deposit from supplier, interest payable and other non-trade payables aggregating to P11,895,414. (See Note 15)

*Derecognition.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

### Classification as Debt or Equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and equity instrument.

#### *Financial Liabilities at FVPL*

Financial liabilities are classified under this category through the fair value option. Derivative instruments (including embedded derivatives) with negative fair values, except those covered by hedge accounting relationships, are also classified under this category.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and it is permitted that the entire combined contract to be designated as at FVPL.

Financial liabilities at FVPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

#### *Other Financial Liabilities*

Other financial liabilities, which includes trade and other payables (except those payable to the government), refund liability, are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument or, when appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Offsetting Financial Instruments*

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

#### *Derecognition*

Financial liabilities are derecognized by the Company when the obligation under the liability is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.



### **3.2 Inventories**

#### *Measurement*

Inventories are valued initially at cost and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. These costs are accounted for as follows:

- Raw materials, spare parts and supplies – raw and packing materials at standard cost method adjusted to actual cost at the end of each reporting period; spare parts and supplies at purchase cost on a moving average method; and,
- Finished goods – determined using standard cost method adjusted to actual at the end of each reporting period; cost is based on annual business plan which includes direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excludes borrowing costs.

The Company uses standard cost in measuring its inventories in as much as this approximates the actual costs. These costs are assessed every year.

#### *Write-down to Net Realizable value*

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Net realizable value of raw materials, spare parts and supplies is the estimated current replacement cost (*see Note 9*). The difference between the net realizable value and inventory cost shall be charged as an expense or expense reduction in the Cost of Goods Sold section of the Statement of Comprehensive Income. (*See Note 18*)

Obsolete, redundant and slow-moving inventories are identified and written down to net realizable values.

#### *Expense recognition*

When inventories are sold and revenue is recognized, the carrying amount of those inventories are recognized as expense (Cost of Sales). Any write-down to NRV and inventory losses are also recognized as expense when they occur.

#### *Sales returns and allowances*

The Company allows for the return of damaged or defective goods as part of the Company's goodwill policy. When returns happen, the Company reduced sales revenue and corresponding cost of sales.

The Company also recognizes expected returns and corresponding refund liability. (*See Note 3.5 "Warranty Obligations, Returns and Allowances, Discounts and Rebates"*)

### **3.3 Property, Plant and Equipment**

#### *Recognition*

Property and equipment are stated at cost less accumulated depreciation and any impairment in value. Items of property, plant and equipment are recognized as assets when it is probable that future economic benefits associated with the assets will flow to the Company and the related cost can be measured reliably. (*See Note 11*)



### *Initial Measurement*

The initial cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. In situations where it can be clearly demonstrated that the expenditure has improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as an additional cost of property, plant and equipment. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and impairment losses are removed from the accounts and any resulting gain or loss is reflected as income or loss for the period.

### *Subsequent Measurement*

Following initial recognition at cost, land and buildings and improvements are carried at its cost less any accumulated depreciation and any accumulated impairment losses.

### *Depreciation (Cost Model)*

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

Building	10 – 40 years
Plant machineries	5 – 10 years
Plant tools and equipment	10 years
Warehouse equipment	10 years
Furniture and Equipment	5 years
Transportation	5 years

In determining the useful life of an asset, other factors such as technical and commercial obsolescence and wear and tear while an asset remains idle, are considered.

Depreciation is charged to profit and loss. Depreciation begins when the asset is available for use and continued until the asset is derecognized even if it is idle.

The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at each reporting date to ensure that the residual values, period and method of depreciation and amortization are consistent with expected pattern of economic benefits from items of property and equipment, and adjusted if appropriate, at each reporting date.

### *Recoverability of Carrying Amount*

An item of property, plant and equipment is subject to impairment testing. (See Note 3.10)

An 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.

### *Derecognition (retirement and disposal)*

An item of property, and equipment 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 the Company's Statement of Comprehensive Income in the year the item is derecognized.

### *Construction in Progress*

Construction in Progress includes all costs directly attributable to bring the asset to the condition necessary for it to be capable of operating in the manner intended by management. Construction in Progress is reclassified to Building once the asset is ready for occupancy.

### **3.4 Intangible Assets**

Intangible assets pertain to acquired computer software. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from 2 to 10 years) as the lives of these intangible assets are considered limited. In addition, other intangible assets are subject to impairment testing as described in *Note 3.10*.

Costs associated with research activities are expensed in the Statement of Comprehensive Income as incurred. Costs that are directly attributable to the development phase of new customized software for information technology and telecommunications systems are recognized as intangible assets provided, they meet the following recognition requirements:

- (i) Demonstration of technological feasibility of the prospective product for internal use or sale;
- (ii) The intangible asset will generate probable economic benefits through internal use or sale;
- (iii) Sufficient technical, financial and other resources are available for completion; and,
- (iv) The intangible asset can be reliably measured.

### *Software Cost*

Software costs are carried at cost less any accumulated amortization and any accumulated impairment losses. (*See Note 12*)

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are expensed as incurred. The amortization period and the amortization method are reviewed at least at each financial year-end. Software cost is regarded as finite, intangible asset and is amortized on a straight-line basis for a period of 2 to 10 years. Software cost is subject to annual impairment testing.

### **3.5 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 commitment that 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 reporting date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. 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. In addition, where 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.

Provisions are reviewed at each reporting date 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, they are not recognized in the financial statements.

*Contingent liabilities* are not recognized in the financial statements. They are disclosed, unless, the possibility of an outflow of resources embodying economic benefits is remote. A *contingent asset* is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

*Warranty Obligations, Returns & Allowances, Discounts and Rebates (Note 13)*

The Company's general promotional/marketing strategy includes the promise to repair or replace certain types of damage to its products within a year following the date of sale. The warranty covers one year from date of sale for parts and services and five years for compressors. Provision for warranty and actual warranty expenses amount to P4,908,092 and P4,827,841, respectively.

The Company recognizes a refund liability based on expected level of return determined upon sale. Sales is reduced by the same amount. As at 2021 and 2020, refund liability amounts to P3,359,463 for both years (*See Note 14*). Provisions for sales returns and actual sales returns amount to P73,442,852 (*See Note 17*).

The Company also allows for returns of damaged or defective goods. The Company recognizes an asset based on the carrying amount of the products expected to be returned less the expected recovery costs.

The Company updates the amounts of recovery and asset at the end of each reporting period for changes in the expectations of the recovery amounts. The adjustment to the recovery is recorded as an addition to revenue for refund liability and as expense for adjustments on the asset.

In order to increase collection, the Company allows for credit, sales discounts for dealers/customers that pays within the payment terms. Aside from this, the Company also grants installation rebates to their loyal customers. Sales discounts and rebates are recognized upon generation of sales. Sales discounts are applied against collection of sales within the discount period; otherwise reverted to sales upon expiration of discount date. Rebates are applied against receivables when threshold is met; otherwise reverted to sales upon expiration. Provisions for sales discounts and actual sales discounts amount to P71,940,650 (*See Note 17*) and P73,218,005, respectively. Provisions for installation rebates and actual installation rebates amount to P16,737,805 and P16,722,473, respectively. (*see Note 14.2*)



Based on its experience, the Company has determined the following provisions based on sales of the current month to cover expected expenses from the various instances as mentioned above.

Sales Return & Allowances	1% to 2%
Sales Discount	4% to 6%
Warranty Obligation	.2% to .3%
Installation Rebates	.7% to .9%

### ***3.6 Revenue and Cost Recognition***

Prior to adoption of PFRS 15, revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Company, and the revenue incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized.

Upon adoption of PFRS 15, revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services based on a five-step model:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods or the rendering of services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, and/or, discounts.

The following specific recognition criteria must also be met before revenue is recognized:

#### ***Sales of Goods***

Revenue from sale of goods is recognized at a point in time when control of the goods underlying the particular performance obligation is transferred to the customer. The Company generates its revenues from the sale of air conditioner and compressor. There is no cost to obtain any contract.

#### ***Sales Discounts***

The Company allows for sales discounts for dealers/customers that pays within the payment terms. Sales discounts are recognized upon generation of sales. Sales discounts are applied against collection of sales within the discount period; otherwise reverted to sales upon expiration of discount date.

#### ***Sales with a Right to Return***

For contracts that grants the customers the right to return purchased goods, discounts, and rebates, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, rebates or discounts, which are estimated based on accumulated experience using the expected value method.

The Company recognizes a refund liability and a right to recover returned goods asset for the transfer of goods with a right to return. The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The

Company reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly. (See Notes 4 and 8)

#### *Interest Income*

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### *Other Income*

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Company and it can be measured reliably.

#### *Dividend income*

Dividend income is recognized when the Company's right as a shareholder to receive the payment is established.

#### *Assembly Fee*

Revenue is recognized upon completion/performance of the obligation/service to be provided based on the assembly services contract.

#### *Rental Income*

Revenue is recognized under the accrual method based on the terms of the existing lease agreement.

#### *Cost and Expense Recognition*

Costs and expenses are recognized in the Company's Statement of Comprehensive Income upon utilization of the service or at the date they are incurred. Except for borrowing costs attributable to qualifying assets, all finance costs are reported on an accrual basis. Cost and Expenses are presented as Cost of Sales and Services (See Note 18), Selling Expenses (See Note 20), General and Administrative Expenses (See Note 21) and Finance Costs (See Note 16) in the Company's Statements of Comprehensive Income.

### **3.7 Employee Benefits**

#### *(a) Statutory Benefits*

In accordance with the provisions of the Labor Code, the Company provides 13<sup>th</sup>, month Pay, Social Security System, Pag-ibig Membership, Home Mutual Development Fund Membership and Philhealth Membership to all employees (See Note 26.1).

#### *(b) Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the reporting date. They are included in the Accrued Expense account in the Company's Statement of Financial Position at the undiscounted amount that the subsidiary expects to pay as a result of the unused entitlement.



*(c) Retirement Benefit Obligations*

Republic Act 7641 amending the Article 287 of Presidential Decree No. 442, otherwise known as the Labor Code, requires companies with more than ten (10) employees to set up or plan a retirement benefit program for its employees.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive upon retirement, usually dependent on one or more factors such as but not limited to age, years of service and salary. The legal obligation for any benefits from this kind of pension 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 pension plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the Company's Statement of Financial Position for net defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. *(See Note 26.3)*

Defined Benefit Costs

The components of defined benefit costs include service costs attributable to current and past periods; net interest on the net defined benefit liability or asset; and, re – measurements of the net defined liability or asset.

Service costs are recognized as an expense in profit or loss. Past-service costs are recognized, in the Company's Statement of Comprehensive Income, as an expense at the earlier of the date when the plan amendment or curtailment occurs and the date when the entity recognizes any termination benefits or related restructuring costs.

Net interest on the net defined benefit liability or asset is the change in the net benefit liability or asset determined using the discount rate at the beginning of the period and recognized in profit or loss. *(See Note 26.3)*

Re – measurement consisting of actuarial gains and losses, return on plan assets, is recognized immediately in Other Comprehensive Income in the period they arise. Re – measurements are not recycled or reclassified to profit or loss in subsequent periods.

The Company adopted Amended PAS 19R in its financial statements retrospectively to January 2, 2012. Accordingly, changes in defined benefit obligations and plan assets are recognized when they occur; all past service cost are recognized in profit or loss as they occur; and all actuarial gains and losses are recognized immediately in Other Comprehensive Income (OCI).

*(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 subsidiary recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment



of current employees according to a detailed formal plan without possibility of withdrawal; or, (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the reporting date are discounted to present value.

### **3.8 Leases**

The Company, accordingly, accounts for its leases as follows:

#### *Identifying a lease*

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Control is conveyed where the lessee has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.

#### *Separating components of a contract*

For a contract that contains a lease component and additional lease and non-lease components, such as the lease of an asset and the provision of a maintenance service, lessees shall allocate the consideration payable on the basis of the relative stand-alone prices, which shall be estimated if observable prices are not readily available.

As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components and instead account for all components as a lease.

#### *Interest rate implicit in the lease*

The interest rate that yields a present value of (a) the lease payments and (b) the unguaranteed residual value equal to the sum of (i) the fair value of the underlying asset and (ii) any initial direct costs of the lessor.

#### *Lease term*

The non-cancellable period for which a lessee has the right to use an underlying asset, plus:

- a) periods covered by an extension option if exercise of that option by the lessee is reasonably certain; and
- b) periods covered by a termination option if the lessee is reasonably certain not to exercise that option

#### *Lessee's incremental borrowing rate*

The rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

#### *Company as Lessee*

Upon lease commencement the Company assesses taking into account whether as lessee it should recognize a right-of-use asset and a lease liability.

The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations or similar.

After lease commencement, a lessee shall measure the right-of-use asset using a cost model, unless:

- i) the right-of-use asset is an investment property and the lessee fair values its investment property under PAS 40; or

ii) the right-of-use asset relates to a class of PPE to which the lessee applies PAS 16's revaluation model, in which case all right-of-use assets relating to that class of PPE can be revalued.

Under the cost model a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate. Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the lessee under residual value guarantees are also included.

Variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs, unless the costs are included in the carrying amount of another asset under another Standard.

The lease liability is subsequently remeasured to reflect changes in:

- the lease term (using a revised discount rate);
- the assessment of a purchase option (using a revised discount rate);
- the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); or
- future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The remeasurements are treated as adjustments to the right-of-use asset.

Lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases.

As Lessee, the Company applied the practical expedient of accounting its lease payments as operating less due to a lease term of only 12 months and the underlying asset has a low value for one lease agreement of 3 years. (See Note 30.1)

### **3.9 Functional Currency and Foreign Currency Transactions**

#### *(a) Functional and Presentation Currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Company's financial statements are presented in Philippine Pesos (₱), which is the functional and presentation currency.

#### *(b) Transactions and Balances*

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Company's Statement of



Comprehensive Income. Translation differences resulting from non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in the Company's Statement of Changes in Equity.

#### *The Effects of Changes in Foreign Exchange Rates*

These provide certain restrictions in allowing the capitalization of foreign exchange differentials. Under prevailing circumstances, the adoption will not have a material effect on the Company's financial position. The Company recognized a net foreign currency gain (loss) of P741,074 and (P219,284) for the year ended December 31, 2021 and 2020, respectively (See Notes 5 and 19).

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

The Company's inventory, intangible assets and property, plant and equipment are subject to impairment testing.

#### *Identifying an asset that may be impaired*

At the end of each reporting period, the Company assesses whether there is any indication that any of its non-financial assets may be impaired (i.e. its carrying amount may be higher than its recoverable amount).

#### *Indications of impairment*

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, some assets are tested individually for impairment and some are tested at cash-generating unit level.

The factors that the Company considers important which could trigger an impairment review include the following:

#### *External sources*

- market value declines;
- negative changes in technology, markets, economy or laws;
- increase in market interest rates;
- net assets of the Company higher than market capitalization

#### *Internal sources:*

- obsolescence or physical damage;
- asset is idle, part of a restructuring or held for disposal
- worse economic performance than expected
- for investments in subsidiaries, joint ventures or associates, the carrying amount is higher than the carrying amount of the investee's assets, or a dividend exceeds the total comprehensive income of the investee

#### *Determining recoverable amount*

- If fair value less costs of disposal or value in use is more than carrying amount, it is not necessary to calculate the other amount. The asset is not impaired.
- If fair value less costs of disposal cannot be determined, then recoverable amount is value in use.
- For assets to be disposed of, recoverable amount is fair value less costs of disposal.



#### *Recognition of an impairment loss*

An impairment loss is recognised whenever recoverable amount is below carrying amount. The impairment loss is recognised as an expense (unless it relates to a revalued asset where the impairment loss is treated as a revaluation decrease). Adjust depreciation for future periods.

#### *Reversal of an impairment loss*

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

### **3.11 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 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.

### **3.12 Related Party Transactions**

Parties are considered to be related if one party has the ability to, directly or indirectly, control or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. (See Note 23)

Related party relationships are a normal feature of commerce and business. The Company sometimes grants/secures interest-bearing and non-interest-bearing advances to/from its affiliates and/or shareholders. Interest-bearing advances are covered by promissory notes renewable annually. Advances to affiliates and/or shareholders are presented as part of Receivables in the Company's Statement of Financial Position. Interest-bearing advances from an affiliate and/or shareholder are presented as part of Notes Payable in the Statement of Financial Position.

Transactions between related parties are accounted for at arm's-length prices or on terms similar to those offered to non-related entities in an economically compatible market.

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

### **3.13 Income Taxes**

The tax expense for the period comprises tax currently payable and deferred tax. Income Tax is recognized in the Statement of Comprehensive Income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Current income tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense or benefit in the Company's Statement of Comprehensive Income.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. (See Note 22.2)

Under the balance sheet 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 carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset to be utilized.

Current tax and deferred tax shall be charged or credited to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the Company's Statement of Comprehensive Income. Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the Company's Statement of Comprehensive Income.

Deferred tax related to fair value re-measurement of available-for-sale investments which are charged or credited directly in other comprehensive income or to equity, is also charged directly to equity and subsequently recognized in the Company's Statement of Comprehensive Income, together with the unrealized gain or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxable authority.

### ***3.14 Earnings per Share***

Basic earnings per share is computed by dividing the net income for the year attributable to equity holders of the Company by the weighted average number of ordinary shares issued and outstanding during the year after considering the retroactive effect, if any, of stock dividends declared during the year, excluding treasury shares. (See Note 24)

Diluted earnings per share is calculated by dividing the net income or loss for the year by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares and adjusted for the effects of all dilutive potential common shares, if any.

In determining both the basic and diluted earnings per share, the effect of stock dividends, if any, is accounted for retroactively.



### ***3.15 Equity***

Capital stock is determined using the nominal value of shares that have been issued. (See Note 25)

Additional paid-in capital includes any premiums received on the initial issuing of capital stock. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Retained earnings include all current and prior period results as disclosed in the Statement of Comprehensive Income.

Cumulative actuarial adjustments pertain to remeasurement adjustments on the net defined benefit obligation or asset due to the difference between the actual experience and estimates in the pension plans.

The cost of acquiring the Company's own shares of stock, or treasury shares, are shown as a deduction from equity attributable to the Company's equity until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects and are included in equity attributable to the Company's shareholders.

#### ***Prior Period Adjustments***

Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements. Potential current period errors discovered in that period are corrected before the financial statements are authorized for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

The Company corrects a prior period error by retrospective restatement except when it is impracticable to determine either the period-specific effects or the cumulative effect of the error. When it is impracticable to determine the period-specific effects of the error on comparative information for one or more prior periods presented, the restatement of the opening balances of assets, liabilities and equity shall be made for the earliest period for which retrospective restatement is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, restatement of the comparative information to correct the error prospectively shall be made from the earliest date practicable.

### ***3.16 Events after the Reporting Date***

Events after the reporting date are those events, favorable and unfavorable, that occur between the reporting date and the date when the financial statements are authorized for issue. (See Note 29)

The Company adjusts the amounts recognized in the financial statements to reflect adjusting events after the reporting date. Non-adjusting events are not recognized in the financial statements but are disclosed in the Notes to Financial Statements.

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**Note 4 - SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Company's financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the amounts therein and in the accompanying notes. The estimates and assumptions used are based upon management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates, 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.

Estimates and judgments 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.

***Critical Management Judgments in Applying Accounting Policies***

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

*Judgement exercised in assessing the effects of the COVID 19 pandemic event which persisted after balance sheet date on the Company's Going Concern (see Note 29.1)*

The Company exercised judgement in determining whether the effects of the COVID 19 pandemic which started in 2020 and continued to persist even after balance sheet date affected the Company's going concern and/or whether the continuing event results to an adjusting event. Management also reviewed certain accounts subject to judgement and estimation uncertainty such as impairment of financial and non-financial assets, expected credit losses or recoverability of deferred tax assets.

During the enhanced community quarantine imposed by the government, the Company's operations were affected by the following:

1. Ceased operation for a month
2. Limited foot traffic in the malls and other distribution channels directly affecting sales performance although the decline is somehow augmented by the shift by buyers to online trading
3. Delay in completion of office warehouse building in Davao (see Note 11)

During the pandemic, the following were actions taken by management:

1. Adjustments in operational processes to comply with government rules and regulations relative to health protocols and social distancing.
2. To mitigate adverse conditions on income, emphasis was placed on expense controls.
3. Promotion of aircon essentials
4. Availled of the Bayanihan Acts 1 and 2 for its outstanding loans
5. Availled of government assistance to employees (e.g. P8,000 per employee in May)
6. Allowed 50% of employees to work from home which slowed down operations
7. Incurred costs of COVID testings

Some none-adjusting events that represent impact on the Company are as follows:

1. Re-structuring of loan
2. Discontinuance of certain segment of the operation
3. Significant decline in fair value of investments



The management concluded that the resulting continuing event has no material impact on its financial statements for the reporting period.

#### *Identifying performance obligations in revenue contracts with its customer*

The Company management exercised judgement in identifying performance obligations in revenue contracts with its customer and determine effects on its revenue recognition. Management has identified that its performance obligation is satisfied at a point in time which is to transfer the goods at the point of delivery. Also identified is that control is transferred on the delivery date, i.e. the date when the Company has fulfilled its performance obligations. There is cost to obtain the contract.

#### *Estimating variable considerations*

The Company's management exercised judgement in estimating the variable considerations such as right to return purchased goods, discounts and rebates, in arriving at the transaction price as defined in PFRS 15. (See Notes 3.5 and 14.2)

#### *Change in criteria for determining when the Amortized Cost, FVOCI or FVPL categories apply to the Company's financial instruments*

The Company management exercised judgement in classifying its cash and cash equivalents and receivables as financial assets at Amortized Cost based on a business model whose objective is to collect contractual cash flows and its Investment in Bonds shares as financial assets at FVOCI based on a business model whose objective is to both collect contractual cash flows and to sell. Its Trade Payable, Mortgage Payable, Term Loans and Other payables will remain as financial liabilities at amortized cost.

#### *Determining Significant Influence over Associate*

Although the Company owns 22.5% of 3D Fab Lab Limited Hongkong, the Company exercised significant judgment in stating that it does not have significant influence over the Associate. The Company does not represent itself in the latter's Board of Directors or any equivalent thereof. There are no potential voting rights. Since the latter's shares also has no quoted price, and there are no other information available to measure fair value reliably, hence, the investment shall be classified as an equity investment where cost is the best estimate of fair value. (See Note 10)

#### *Adequacy of allowance for credit losses on loans and receivables including short-term receivables*

The Company management exercised judgement in determining adequacy of the impairment allowances considering forward looking estimates. As a result, the Company provided for a provision for credit losses amounting to P1,021,455 in 2021. (See Notes 7, 21 & 28.3)

#### *Determination of Functional Currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Peso. The Peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the revenue, costs and expenses of the Company.

### *Disclosure on Related Party Transactions*

The Company determines the level of detail to be disclosed, in accordance with the requirements of the Philippine Financial Reporting Standards, in order to provide information in sufficient detail to the users of the financial statements to understand the effects of related party transactions on its financial statements:

- i. the nature and amount of each individually significant transaction; and
- ii. a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

In arriving at this judgment, the Company considers the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transactions. *(See Notes 3.12 and 23)*

### *Operating and Finance Leases*

The Company has entered into various operating lease agreements as either a lessor or a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rental expenses for 2021 and 2020 amount to P2,400,100 and P2,388,571, respectively. *(See Note 21 & 30.1)*

### *Revenue Recognition*

The Company has recognized gross revenue amounting to P1,767,549,619 and P1,821,891,557 for the sale of the aircon units to wholesale dealers in 2021 and 2020, respectively *(See Note 17)*. Based on the sale transactions, the buyer has the right to return the goods should there be any defect either in packaging or the product itself. Moreover, the Company allows for credit discounts to their long-standing customers once payment is received within 90 days from the date of delivery. Based on these policies, the Company believes that based on past experiences, the percentage of returns shall be 2% and discounts and rebates shall be 6%. The Company therefore recognized revenue with the corresponding provision against revenue for estimated returns, credit discounts, and rebates. The provision for sales returns and discounts amounts to P145,383,501 and P111,058,794 for the years ended December 31, 2021 and 2020, respectively. *(see Notes 3.5 and Note 17)*

### *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies based on the certainty of the significant obligation or outflow resulting from contractual obligations, agreements, etc. and said outflow can be estimated reliably even if timing of may not be certain. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in *Note 3.5* and other relevant disclosure presented in *Note 30*.

### *Key Sources of Estimation Uncertainty*

In the application of the Company's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.



The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

*a) Fair Value Measurements and Valuation Processes*

Some of the Company's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the company has set up a valuation committee, which is headed up by the Chief Financial Officer of the company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Company uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Company engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

As at reporting date, the Company determined that since there are no available information to measure the fair value of its investments in 3D Fab Lab Limited, the original cost was determined to be the appropriate estimate of fair value.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in *Note 28.1*.

*b) Standard cost as measurement of inventories*

The Company exercises judgement in determining the appropriate standard cost to be used in measuring its inventories and conducts assessment of the standard cost every year. (See *Note 3.2*)

*c) Impairment of Non-Financial Assets*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Company is required to make estimates and assumptions that can materially affect the financial statements.

d) *Valuation of Financial Assets Other than Trade and Other Receivables*

The Company carries other financial assets such as financial assets at FVOCI. The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

In determining the fair value of the Company's financial assets at fair value, management evaluates the presence of significant and prolonged decline in the fair value of share price below its cost, the normal volatility in the share price, the financial health of the investee and the industry and sector performance like changes in operation and financial cash flows. Any indication of deterioration in these factors can have a negative impact on their fair value. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

e) *Allowance for Impairment of Trade and Other Receivables*

The Company evaluates these accounts based on its default experience with its customers, available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status based on third party credit reports and on known market forces, collateral security, average age of accounts, collection experience and historical default experience. The Company management is of the opinion that the impairment allowances is not materially affected by following the same table of provision used in the reporting period.

The Company's management, after careful evaluation, provides for the allowance for credit losses amounting to P5,779,785 on its trade and other receivables as at the reporting period. (See Notes 7 and 28.3)

f) *Useful Lives of Property and Equipment*

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 11. Actual results, however, may vary due to changes in estimates brought about by changes in the aforementioned factors. There is no change in estimated useful lives of property and equipment during the year (see Note 3.3).



g) *Valuation of intangible assets and useful life*

The Company carries a computer software. In assessing whether there is any indication that the software right may be impaired, the Company considered external and internal sources of information (*See Note 12*). The carrying amount of computer software is P1,434,408 and P1,223,142 for the years 2021 and 2020, respectively.

h) *Retirement Liability and other employee benefits*

The Company determines the appropriate discount rate at the end of each financial reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligation. In determining the appropriate discount rate expected return on the plan assets, the Company considers the interest rate on government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement obligation.

Other key assumptions for retirement obligation are based in part on current market conditions. Additional information is disclosed in *Note 26.3*.

The determination of the Company's retirement liability and other employee benefits is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected return on plan assets and salary increase rates. Due to the long-term nature of these plan assets, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of balance sheet dates. Refer to *Note 26.3* for the details of assumptions used in the calculation. In accordance with PAS 19, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement liability.

The Company also estimates other employee benefit obligations and expenses, including costs of paid leaves based on historical leave availment of employees and subject to the Company's policy. These estimates may vary depending on the future changes in salaries and actual experiences during the year.

Retirement benefit cost recognized in profit or loss for the years ended December 31, 2021 and 2020 amounted to P8,898,217 and P6,454,111, respectively (*see Notes 21 & 26.2*).

As at December 31, 2021 and 2020, the retirement liability of the Company amounted to P38,738,676 and P46,068,021, respectively (*see Note 26.3*).

i) *Impairment of Non-financial Assets*

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets or holding of an investment, the Company is required to make estimates and assumptions that may materially affect the financial statements.

j) *Realizable Amount of Deferred Tax Assets and Liabilities*

The Company reviews its deferred tax assets and liabilities at each reporting date 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 and/or liability to be utilized.

Significant management judgment is required to determine the amount of deferred tax asset that can be recognized based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Management has determined based on business forecast of succeeding years that there are enough taxable profits against which the recognized deferred income tax assets will be realized (*see Note 21.2*).

Deferred Tax Assets recognized during the year amounted to P22,543,686. (*See Note 21.2.1*)

k) *Income tax provision*

The Company's current tax provision of P30,106,055 relates to management's assessment of the amount of tax payable on open tax positions where the liabilities remain to be agreed with relevant tax authorities. Uncertain tax items for which a provision of P7,964,131 is made relate principally to the interpretation of tax legislation applicable to the Company. (*See Note 22.1*)



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**Note 5 – FINANCIAL ASSET AT A MORTIZED COST - CASH**

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This account is comprised of the following:

	2021	2020
Cash in bank		
Local currency	P 341,573,826	P 266,931,174
Foreign currency	15,340,503	25,800,647
Revolving fund	260,000	235,000
	<u>P 357,174,329</u>	<u>P 292,966,821</u>

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Included in cash in banks are USD – denominated bank deposits totaling to USD302,133 or P15,340,503 in 2021 USD537,108 or P25,800,647 in 2020.

Interest income earned from cash and cash equivalents totaled P287,091 and P829,531 in 2021 and 2020, respectively (*See Note 19*). Unrealized gain (loss) on forex resulting from the translation of the US Dollar deposit to Philippine peso amount to P714,074 and (P219,284) in 2021 and 2020, respectively, presented as a component of Net Unrealized Gain (Loss) on Foreign Exchange presented as part of Other Income and Expenses in the Statements of Comprehensive Income (*See Note 19*).

None of the above assets were used as security to any loan or liability and, therefore, no restrictions on the assets.

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**Note 6 – INVESTMENT IN DEBT INSTRUMENTS AT AMORTISED COST**

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**6.1 Investment in Bonds – Current**

On January 1, 2021, the Company made a short-term investment with BDO Unibank Inc acquired at a discount amounting to P30,000,000. Unamortized bond discount as of December 31, 2021 amounted to P6,178. Carrying value of this bond as of December 31, 2021 amounted to P29,993,822.

**6.2 Investment in Bonds – Non-current**

On March 1, 2018, the Company made a long-term investment in SM Prime Bond with a principal of P50,000,000 for 7 years. The bond earns interest at 6.0804% per annum and will be receive semi-annually in arrears.

Interest income earned on this investments amounted to P4,259,734 and P3,811,162 for the years 2021 and 2020, respectively. (*See Note 18*)

Accrued interest on these investments amounted to P1,013,400 for both years 2021 and 2020, respectively. (*See Note 6*)

## Note 7 – FINANCIAL ASSETS AT AMORTISED COST – TRADE AND OTHER RECEIVABLES

This account consists of:

	2021	2020
Trade receivables	P 318,843,860	P 282,704,317
Allowance for credit losses	( 5,265,205 )	( 4,243,750 )
Trade receivables - net	313,578,655	278,460,567
Advances to officers and employees ( <i>Note 7.1 &amp; 23d</i> )	4,259,630	4,270,877
Allowance for credit losses	( 514,580 )	( 514,580 )
Interest receivable ( <i>Note 6</i> )	1,013,400	1,013,400
Other receivables ( <i>Note 7.2</i> )	1,147,161	919,927
	<b>P 319,484,266</b>	<b>P 284,150,190</b>

The fair value of these short-term financial assets is not individually determined as the carrying amount is a reasonable approximation of fair value.

All receivables are subject to credit risk exposure. However, the Company does not identify specific concentrations of credit risk with regards to receivables, as the amounts recognized resemble a large number of receivables from various customers.

An aging of these receivables as of December 31, 2021 and 2020 is presented below:

Age of Receivables	2021	2020
Current (1-30 days)	P 122,242,850	P 125,456,201
31 - 60 days	110,289,337	70,402,864
61 - 90 days	45,147,391	65,220,796
Over 90 days	41,164,282	21,624,456
	<b>P 318,843,860</b>	<b>P 282,704,317</b>

All of the Company's receivables have been reviewed for indicators of impairment. As at December 31, 2021, after careful evaluation, the Company made a provision for its trade receivables amounting to P1,021,455.

As at December 31, 2020, the Company recognized a recovery of credit losses on its trade receivables amounting to P3,415,292. (*See Note 19*)

### **7.1 Advances to officers and employees**

Advances to officers and employees pertains to non – interest bearing cash advances given by the Company subject to liquidation.

### **7.2 Interest receivable**

Interest accrued on Investment in Bonds amounting to P1,013,400 as at 2021 and 2020.



### 7.3 Other receivables

Other receivables pertain to non – interest bearing cash and non-cash loans by officers and employees that are paid off through salary deduction for 12 to 24 months.

None of the Company's receivables were used as security or collateral to any liability.

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### Note 8 – REFUND ASSET/LIABILITY

Refund asset amounted to P2,472,010 for both years 2021 and 2020. This account pertains to the right to recover returned goods asset that is measured at the former carrying amount of the inventory less any expected cost to recover goods. (See Note 3.5)

	2021	2020
Beginning	P 2,472,010	P 2,504,479
Provisions for returns	73,442,852	9,683,168
Actual returns	( 73,442,852 )	( 9,715,637 )
Refund asset	P 2,472,010	P 2,472,010

Returned goods asset is accounted as inventory. This is distinctly identifiable from finished goods.

Refund liability amounted to P3,359,463 for both years 2021 and 202 and presented as part of Trade and Other Payables (See Note 14). This pertains to provision made for sales returns representing estimated returns for sales in accordance with the Company's sales returns policy. Movements in the account are as follows:

	2021	2020
Beginning	P 3,359,463	P 3,473,665
Provisions for returns	16,919,210	34,058,437
Actual returns	( 16,919,210 )	( 34,172,639 )
Refund liability	P 3,359,463	P 3,359,463

Provision for sales returns are estimated primarily on the basis of historical experience, market conditions, and provided for in the year of sale as a reduction from revenue.

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### Note 9 – INVENTORY

This account consists of:

	2021	2020
Finished Goods	P 417,904,367	P 557,775,730
Inventory in Transit	2,139,817	2,252,439
	420,044,184	560,028,169
Service Parts	5,496,474	6,466,441
Total	P 425,540,658	P 566,494,610

The cost of individual items of inventory are determined using the first in, first out method. Inventories recognized as an expense for the years ended December 31, 2021 and 2020 totals to P1,248,979,597 and P1,292,409,067, respectively. (See Note 18)

In 2020, the Company disposed some of their obsolete inventories. Inventory Loss on these disposals amounted to P2,376,578 as of December 31, 2020 after considering previously set up allowance for inventory obsolescence from prior year.

None of the Company's inventory was written down to its net realizable value as of December 31, 2021 and 2020.

The company's net realizable value is higher than its cost to sell so there is no need to allocate allowance for inventory obsolescence for December 31, 2021.

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**Note 10 – FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME: INVESTMENTS IN EQUITY INSTRUMENTS**

This account consists of investments in private foreign and domestic companies. Investments in stocks are accounted for at fair value. (see Notes 3.1 (iv) & 3.2)

**10.1 Investment in Stocks**

	2021	2020
3D Fab Lab Limited (Note 9.1)	P 15,252,075	P 15,252,075
Allowance for impairment	( 15,252,075 )	( 15,252,075 )
	-	-
La View Security Philippines, Inc. (Note 9.2)	1,500,000	1,500,000
Allowance for impairment	( 1,500,000 )	( 1,500,000 )
	-	-
Total	P -	P -

**10.1.1 Investment in 3D Fab Lab Limited**

This pertains to the Company's 22.5% investment in 3D Fab Lab Limited Hong Kong, a private company limited by shares, incorporated on May 22, 2014 and previously named as 3D Innovation Technology Limited, amounting to USD 112,500 or P5,089,500 on October 16, 2015. In 2016, the Company made additional investment amounting to P10,135,575 or USD212,000. The Company determines that it does not have significant influence or control over the Company since it does not represent itself in the latter's Board of Directors or any equivalent thereof. There are no potential voting rights.

In 2018, the Company provided 100% allowance for impairment since the investee has already closed its business and fair value measurement of the its investment is impracticable.

**10.1.2 Investment in La View Security Philippines, Inc.**

The Company's investment in La View Security Philippines represents its 15% share in the outstanding capital stock of the company amounting to P1,500,000. La View Security Philippines, Inc. was incorporated and registered with the SEC on May 23, 2012 under the laws



of the Philippines with SEC Registration No. CS201209010. Its primary purpose is to engage in, operate, conduce and maintain the business of manufacturing, importing, assembling, repairing, selling or otherwise dealing in wholesale products such as: digital video recorders, CCTV cameras, display monitors, power supplies, security alarms, and devises, access control devices, and other related digital surveillance equipment or products of similar nature, and any and all equipment, materials, supplies, accessories used or related to such products.

In 2019, after careful evaluation, provided 100% allowance for impairment losses in this investment at its whole amount amounting to P1,500,000 since the investee has already closed its business and fair value measurement of the its investment is impracticable.

#### Note 11 – PROPERTY AND EQUIPMENT

Reconciliation of the carrying amounts at the beginning and end of 2021 and 2020, and the gross carrying amount and the accumulated depreciation of property and equipment are shown below:

2021						
Cost		Beginning		Additions	Reclass/ Recovery	Ending
Land	P	176,523,596	P	-	P -	P 176,523,596
Building		122,311,214		-	-	122,311,214
Plant & warehouse building, machineries and equipment		194,603,864		5,169,423	11,810,585	211,583,872
Furniture, fixture and equipment		29,566,484		5,883,186	-	35,449,670
Transportation		44,985,424		2,591,518	-	47,576,942
Other equipment		3,123,096		217,199	-	3,340,295
Construction in progress		11,810,585		-	(11,810,585)	-
Warehouse equipment		-		250,893	-	250,893
		582,924,262		14,112,219	-	597,036,482
Accumulated Depreciation		Beginning		Additions	Disposal	Ending
Building	P	4,502,846	P	3,086,510	P -	P 7,589,356
Plant & warehouse building, machineries and equipment		114,197,692		5,436,195	-	119,633,887
Furniture, fixture and equipment		25,214,945		4,328,718	-	29,543,663
Transportation		36,718,415		5,606,985	-	42,325,400
Other equipment		2,770,490		224,873	-	2,995,363
Warehouse equipment		-		30,878	-	30,878
		183,404,386		18,714,159	-	202,118,545
Accumulated Impairment						
Land (Note 18)		-		-	-	-
Net Book Value	P	399,519,876	P	(4,601,940)	P -	P 394,917,936

2020

Cost		Beginning		Additions		Reclass/ Recovery		Ending
Land	P	176,523,596	P	-	P	-	P	176,523,596
Building		113,306,932		9,004,283		-		122,311,214
Plant & warehouse building, machineries and equipment		193,097,480		1,506,384		-		194,603,864
Furniture, fixture and equipment		28,288,022		1,278,462		-		29,566,484
Transportation		38,412,794		6,572,630		-		44,985,424
Other equipment		2,926,415		196,681		-		3,123,096
Construction in progress		-		11,810,585		-		11,810,585
		552,555,238		30,369,024		-		582,924,262
<b>Accumulated Depreciation</b>		<b>Beginning</b>		<b>Additions</b>		<b>Disposal</b>		<b>Ending</b>
Building	P	1,416,337	P	3,086,509	P	-	P	4,502,846
Plant & warehouse building, machineries and equipment		106,871,905		7,325,787		-		114,197,692
Furniture, fixture and equipment		18,811,627		6,403,318		-		25,214,945
Transportation		29,974,304		6,744,110		-		36,718,415
Other equipment		2,254,934		515,556		-		2,770,490
		159,329,106		24,075,280		-		183,404,386
<b>Accumulated Impairment</b>								
Land (Note 18)		-		-		-		-
Net Book Value	P	393,226,132	P	6,293,744	P	-	P	399,519,876

Property and equipment are subject to annual impairment testing and whenever there is an indication of impairment (See Note 3.10).

*Acquisitions during the year*

During 2020, the Company entered in construction contract to build an office building on the lot area acquired in Davao in 2019. The office building is 100% completed as of December 31, 2021 at a cost of P16,049,488.

Various furniture, fixtures and equipment were acquired at a cost of P5,883,186.

Transportation equipment were acquired at a cost of P2,591,518 for Company's operating activities.

Warehouse and other equipment were acquired amounting to P468,092.

*Appraisal of Property*

*Properties in Dasmarinas, Cavite*

The Company's four parcels of land with improvements located within First Cavite Industrial Estate, Barangay Langkaan, Dasmarinas, Cavite was appraised on December 5, 2019 by Emprisa Inno Solutions, Inc based on its highest and best use. Highest and best use is defined as the most profitable likely use of the property that will generate the maximum return of investment for a certain period of time. The opinion may be based on the highest and most profitable continuous use to which the property is adapted and needed, or that use of land, which may reasonably be expected to produce the greatest net return to land over a given period of time.

The valuation process involved comparing, analyzing, and relating the similar comparable properties to the land being appraised, and employing the weighted adjustments to compensate for the differences (various factors such as size, shape, location, present development and time element were considered in the valuation and as basis of comparison).



The buildings/improvements are evaluated using Cost Approach Method. The Cost Approach Method is a process that involves analyzing and estimating the reproduction or replacement cost and estimating the accrued depreciation with due consideration to physical deterioration, functional and external obsolescence.

The fair market value of land was estimated at P96,104,400 while the building/improvements was estimated at P112,825,733 for an estimated total appraised value of land and improvements of P208,930,133. Based on the appraisal on the land and comparing the same with its carrying amount, the Company recognized a recovery of impairment loss in 2019 amounting to P2,559,358.

*Land in EDSA/Sta. Rita Street, Guadalupe Nuevo*

On November 28, 2019, the Company's property consisting of a parcel of land containing an area of 951 square meters located along Epifanio delos Santos Avenue and Sta. Rita Street, Guadalupe Nuevo, Makati City was appraised by Emprisa Inno Solutions, Inc. based on Fair Market Value. Based on analysis of the property itself, the highest and best use was determined to be commercial/residential utility. The valuation process involved comparing, analyzing, and relating the similar comparable properties to the land being appraised, and employing the weighted adjustments to compensate for the differences (various factors such as size, shape, location, present development and time element were considered in the valuation and as basis of comparison).

Based on data gathered with due consideration to size, shape, neighborhood development and location, the fair market value of land was estimated at P171,180,000 while the building/improvements was estimated at P126,863,760 for an estimated total appraised value of land and improvements of P297,863,760.

*Land in Mactan Street, Guadalupe Nuevo*

On December 05, 2019, the Company's property consisting of a parcel of land containing an area of 200 square meters and a one storey semi-lofty structure with mezzanine located Mactan Street, Guadalupe Nuevo, Makati City was appraised by Emprisa Inno Solutions, Inc. based on Fair Market Value. Based on analysis of the property itself, the highest and best use was determined to be residential utility. The valuation process involved comparing, analyzing, and relating the similar comparable properties to the land being appraised, and employing the weighted adjustments to compensate for the differences (various factors such as size, shape, location, present development and time element were considered in the valuation and as basis of comparison).

Based on data gathered with due consideration to size, shape, neighborhood development and location, the fair market value was estimated to be P85,000 per square meter or P17,000,000 for the land and P1,285,714 for the structure or a total of P18,286,000.

In 2016, the Company's management has opted to use this land as site for their new head office, thus this property amounting to P53,923,152 was reclassified to Property, Plant and Equipment.

The amount of depreciation is allocated between the following:

	2021	2020
Cost of sales and services (Note 15)	P 3,987,198	P 5,876,791
General and administrative expense (Note 18)	14,726,961	18,198,489
	<u>P 18,714,159</u>	<u>P 24,075,280</u>

#### *Collateral to Loans*

The Company's four lots aggregating 22,882 sq. m. in First Cavite Industrial Estate (FCIE), Barangay Langkaan, Dasmariñas, Cavite, where its plant is erected, and the 951 sqm. lot in Guadalupe, Makati City were used as collateral to multiple credit facilities approved by a local commercial bank with total carrying value amounting to P359,622,177. (See Note 16.1)

The credit facility of one of the banks also provides that there will be no partial release of collateral while the facilities are still outstanding. The bank reserves the right at any time in its sole discretion to require the submission of collateral on additional collateral.

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#### **Note 12 – INTANGIBLE ASSETS**

The intangible assets of the Company pertain to computer software license.

The computer software is presently used for the accounting system. The reconciliation of the carrying amounts at the beginning and end of 2021 and 2020 and the gross carrying amounts and the accumulated amortization of intangible assets are presented as Intangible Assets, net in the Statements of Financial Position as follows:

	<u>2021</u>	<u>2020</u>
Beginning balance	P 1,223,142	P 1,172,989
Additions	1,076,778	686,741
Amortization for the year (Note 18)	( 865,512 )	( 636,588 )
	<u>P 1,434,408</u>	<u>P 1,223,142</u>

In 2021, the Company acquired additional computer software for service management system, warranty and license for firewall protection and computer upgrade.

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#### **Note 13 – PREPAYMENTS AND OTHER ASSETS**

This account consists of:

	<u>2021</u>	<u>2020</u>
<i>Current assets</i>		
Creditable withholding tax	P 5,745,128	P -
Prepayments (Note 13.1)	<u>455,300</u>	<u>885,424</u>
	<u>P 6,200,428</u>	<u>P 885,424</u>
<i>Non-current assets</i>		
Deposit to suppliers (Note 13.2)	P 1,383,355	P 2,482,394
Rental Deposits (Note 30.1)	829,964	817,164
Other Deposits	<u>13,500</u>	<u>13,500</u>
	<u>P 2,226,819</u>	<u>P 3,313,058</u>

#### **13.1 Prepayments**

Prepayments pertains to the deferment of semi – annual prepaid health insurance of the Company's officers and employees.



### 13.2 Deposit to suppliers

In 2020, advance payment was made to the contractor for the construction of the Company's warehouse building in Davao (See Note 10). Carrying value of advances to contractors amounted to P1,383,355 and P2,482,394 for the year 2021 and 2020, respectively.

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## Note 14 – TRADE AND OTHER PAYABLES

This account consists of the following:

	2021	2020
Trade payables (Note 14.1)	<b>P 105,787,682</b>	P 109,664,682
Accrued expenses (Note 14.2)	<b>13,418,154</b>	13,181,188
Refund liability (Note 3.5 & 8)	<b>3,359,463</b>	3,359,463
	<b><u>P 122,565,299</u></b>	<b><u>P 126,205,333</u></b>

### 14.1 Trade Payables

This account represents amounts due to suppliers of goods and services for the production of its products.

### 14.2 Accrued Expenses

Accrued expenses consist of the following:

	2021	2020
Accrued Warranty Expenses	<b>P 3,846,468</b>	P 2,684,282
Accrued Installation Rebates	<b>2,699,615</b>	3,766,218
Accrued Sales Discount	<b>433,813</b>	1,711,168
Accrued Liability	<b>6,438,258</b>	5,019,519
	<b><u>P 13,418,154</u></b>	<b><u>P 13,181,188</u></b>

The Company make provisions for sales discounts and installation rebates that should be maintained at a certain level based on the sales for the month ranging from .2% to 6%.

Installation rebates are expensed out as part of installation costs/service calls in cost of services (Note 18.1) amounted to P16,737,806 and P14,610,981 in 2021 and 2020, respectively. Sales returns and discounts netted out from sales totaled P145,383,502 and P111,058,794 in 2021 and 2020, respectively. (See Note 17)

Accrued liability amounting to P6,223,258 represents reversals of check disbursements that are determined to be unreleased as of December 31, 2021 which were paid subsequently in January 2022 and accrual of audit fee amounting to P215,000.

## Note 15 – OTHER NON-TRADE PAYABLES

### *Financial liabilities at amortized cost – other payable*

This consists of the following:

	2021	2020
Interest Payable (Note 16)	P 5,597,177	P 7,660,230
Deposit from Suppliers (Note 15.1)	6,298,237	5,819,815
Non-trade payables (Note 15.2)	-	29,804
	<u>P 11,895,414</u>	<u>P 13,509,850</u>

#### **15.1 Deposit from suppliers**

The amount of P6,298,237 and P5,819,815 in 2021 and 2020, respectively, represents cash bonds deposited by third party authorized service centers to the Company.

#### **15.2 Non-trade payable**

Represents accrual of non-trade payables as of December 31, 2021.

#### **Due to Government Agencies**

	2021	2020
Due to BIR (Note 14.3)	P 3,583,525	P 5,668,236
Statutory payable (Note 14.4)	550,672	747,078
	<u>P 4,134,197</u>	<u>P 6,415,314</u>

#### **15.3 Due to BIR**

	2021	2020
VAT Payable (Note 21.3)	P 3,271,908	P 5,386,359
Withholding Tax Payable - Expanded (Note 21.3)	250,593	256,177
Withholding Tax Payable - Compensation (Note 21.3)	61,024	25,700
	<u>P 3,583,525</u>	<u>P 5,668,236</u>

#### **15.4 Statutory payable**

	2021	2020
SSS Contribution Payable	P 371,903	P 256,471
Medicare Contribution Payable	112,269	233,002
Pag-ibig Contribution Payable	66,500	257,605
	<u>P 550,672</u>	<u>P 747,078</u>



## Note 16 –LOANS

This account consists of the following:

	2021	2020
Current	<b>P 359,622,177</b>	P 369,382,228
Noncurrent	<b>18,694,403</b>	18,694,403
	<b><u>P 378,316,580</u></b>	<b><u>P 388,076,632</u></b>

The roll-forward of loans is as follows:

2021			
	Credit Facilities Accommodation		Long Term Loan
Beginning	P	369,382,228	P 18,694,403
Addition		338,676,271	-
Payment		(348,436,322)	-
Ending	P	<u>359,622,177</u>	P <u>18,694,403</u>
2020			
	Credit Facilities Accommodation		Long Term Loan
Beginning	P	435,172,501	P 18,694,403
Addition		1,017,597,790	-
Payment		(1,083,388,062)	-
Ending	P	<u>369,382,228</u>	P <u>18,694,403</u>

The total finance costs incurred amounted to P7,439,205 and P10,161,941 in 2021 and 2020, respectively. Interest accrued amounts to P5,597,177 and P7,660,230 in 2021 and 2020, respectively. (See Note 14)

### 16.1 Bank Credit Lines

	2021	2020
Beginning	<b>P 369,382,228</b>	P 435,172,501
Addition	<b>338,676,271</b>	1,017,597,790
Payment	<b>(348,436,322)</b>	(1,083,388,062)
Ending	<b><u>P 359,622,177</u></b>	<b><u>P 369,382,228</u></b>

The Company has various credit facilities/accommodations approved by three (3) local commercial banks aggregating to P359,622,177 and P369,382,228 in 2021 and 2020, respectively.

These credit facilities/accommodations include omnibus credit lines (with sublimit on letters of credits/trust receipt (LCTR), foreign standby letters of credit, and discounting lines), working capital loan lines and domestic bills purchased lines payable within a minimum of 30 days or a maximum of 365 days upon availment, with interest stated at prevailing market rate of 3.25% payable and repriced monthly. The credit facility agreements will expire January, February and July of 2021.

The four lots with 22,882 sq. m. located in First Cavite Industrial Estate and the 951 square meter lot in Guadalupe, Makati City were used as collaterals to the above credit facilities/accommodations (see Note 11).

The credit facility of one of the banks also provides that there will be no partial release of collateral while the facilities are still outstanding. The bank reserves the right at any time in its sole discretion to require the submission of collateral on additional collateral.

Total interest expense incurred in these loans amounted to P7,439,205 and P10,161,941 in 2021 and 2020, respectively.

#### **16.2 Long – term Loan**

	2021	2020
Beginning	P 18,694,404	P 18,694,404
Addition	-	-
Payment	-	-
Ending	P 18,694,404	P 18,694,404

The Company obtained unsecured, non – interest bearing advances from its former shareholder for working capital requirements and capital expenditures in 2008 and prior years. As at reporting date, the Company reserves the unconditional right to make or defer payment. (See Note 23a)

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#### **Note 17 – SALES AND SERVICES**

This account consists of the following:

	2021	2020
Sales	P 1,767,549,619	P 1,821,891,557
Less: Sales returns	( 71,940,650)	( 34,058,437)
Sales discounts	( 73,442,852)	( 77,000,357)
Service Income	62,388,798	52,640,751
Total	P 1,684,554,914	P 1,763,473,514



## Note 18 – COST OF SALES AND SERVICES

This account consists of the following:

	2021	2020
Beginning Inventory	P 566,494,610	P 507,387,079
Add: Purchases	1,059,408,500	1,304,665,059
Direct labor	11,107,879	11,683,623
Factory overhead (Note 18.2)	37,509,267	35,167,918
Total Goods Available For Sale	1,674,520,255	1,858,903,678
Less: Ending Inventory (Note 9)	425,540,658	566,494,610
Total	1,248,979,597	1,292,409,068
Inventory Loss (Note 9)	-	2,376,578
Cost of Goods Sold	1,248,979,597	1,294,785,647
Add: Cost of Services (Note 18.1)	47,700,881	34,958,195
Total Cost of Sales and Services	P 1,296,680,479	P 1,329,743,842

As at December 31, 2020, the Company recognized inventory loss amounting to P2,376,578.  
(See Note 8)

**18.1** The breakdown of cost of services is as follows:

	2021	2020
Installation Costs/Service Calls	P 32,353,216	P 23,664,064
Service Supplies	15,347,665	11,294,131
	P 47,700,881	P 34,958,195

Installation costs include costs of service centers contracted by the Company.

18.2 The breakdown of factory overhead is as follows:

	2021	2020
Repairs & maintenance	P 10,806,757	P 5,757,955
Taxes & licenses (Note 22.3)	5,738,975	7,985,680
Depreciation expense (Note 11)	3,987,198	5,876,791
Employee benefits	2,789,032	1,781,444
Security & Janitorial	2,333,476	2,186,986
Salaries & wages	2,286,222	2,238,266
Light & water	1,951,584	1,962,539
Office supplies	1,505,396	947,946
Insurance & bond premiums	1,314,957	1,301,496
Research & development	1,017,856	503,106
Plant supplies	1,004,351	1,923,423
Staff Conference	916,861	811,648
Gas & oil	522,036	356,474
Telephone & communication	452,232	454,776
Dues & subscription	352,184	357,884
Motor vehicle expense	300,573	258,803
Commission & Incentives	114,250	176,750
Transportation & travel	60,919	101,723
Accountable forms	42,580	176,313
Training & seminar	6,861	1,100
Representation expense	3,279	3,182
Legal & notarial	1,600	3,150
Documentary Stamps	90	-
Postage & stamps	-	484
	<b>P 37,509,267</b>	<b>P 35,167,918</b>

#### Note 19 – OTHER INCOME and EXPENSES

This account consists of the following:

	2021	2020
<b>Other Income</b>		
Interest income		
Investments in Bonds (Note 6)	P 4,259,734	P 3,811,162
Savings and Time Deposits (Note 5)	287,091	829,531
Miscellaneous income:		
Assembly fee (Note 30.2)	10,207,763	18,095,377
Unrealized forex gain	741,074	-
Recovery of allowance for credit losses (Note 7)	-	3,415,292
	<b>P 15,495,661</b>	<b>P 26,151,362</b>

#### Other Expenses

This account pertains unrealized loss on foreign exchange transactions amounting to P-nil- and P219,284 as of December 31, 2021 and 2020, respectively. (See Note 5)



## Note 20 – SELLING EXPENSES

This account consists of the following:

	2021	2020
Advertising and Promotion ( <i>See Note 20.1</i> )	P 30,855,814	P 61,974,367
Shipping & Delivery	36,617,426	38,658,890
Salesman Commission	4,883,547	209,954
	<u>P 72,356,787</u>	<u>P 100,843,211</u>

### 20.1 Advertising and Promotion

This account consists of the following:

	2021	2020
Ads placement	P 25,947,722	P 42,470,576
Installation rebates	-	14,610,981
Warranty expense	4,908,092	4,892,810
	<u>P 30,855,814</u>	<u>P 61,974,367</u>

## Note 21 – GENERAL AND ADMINISTRATIVE EXPENSES

This account consists of the following:

	2021	2020
Salaries and Wages	P 121,464,013	P 103,560,257
Depreciation Expense ( <i>Note 11</i> )	14,726,961	17,969,565
Pension Expense ( <i>Note 26.3</i> )	8,898,217	6,454,111
Taxes and Licenses ( <i>Note 22.3</i> )	8,315,824	11,410,465
Staff Conference	7,525,136	7,196,407
Employees & Fringe Benefits	4,844,513	3,917,244
Gas & Oil	4,878,922	3,124,099
Professional, Legal and Notarial Fees	4,043,965	1,691,034
Communication, Postage & Stamps	3,797,694	3,994,557
Office and Warehouse Supplies	3,453,760	3,506,405
Light and Water	3,285,667	2,749,364
Directors Fee ( <i>Note 23c</i> )	2,659,474	2,559,474
Security and Janitorial	2,522,866	2,491,689
Rental Expense ( <i>Note 30.1</i> )	2,400,100	2,388,571
Motor Vehicle Expenses	2,366,454	2,125,183
Transportation & Travel	2,019,092	2,283,286
Health Insurance Premium	1,739,083	2,473,423
Repairs & Maintenance	1,673,588	927,556
Representation Expense	1,686,701	1,564,429
Dues & Subscription	1,349,029	1,390,771
Provision for credit losses ( <i>Note 7</i> )	1,021,455	275,436
Amortization of intangible ( <i>Note 12</i> )	865,512	865,512
Personnel Recruitment	644,281	122,878
Research and Development	457,805	1,423,132
Insurance & Bond Premium	434,602	523,674
Trainings & Seminars	85,070	56,608
Bank charges	10,447	15,170
Board Meeting	3,766	31,521
Deficiency Taxes ( <i>Note 22.3</i> )	-	3,603,996
Miscellaneous Expenses	13,625	23,132
	<u>P 207,187,622</u>	<u>P 190,718,949</u>

## Note 22 – INCOME TAX

### 22.1 Income Tax Expense (benefit)

	2021	2020
Current tax expense	<b>P 30,106,055</b>	P 50,010,748
Deferred tax expense	<b>( 7,964,131 )</b>	( 1,966,634 )
	<b>P 22,141,925</b>	P 48,044,114

The reconciliation of tax on pre-tax income computed at the applicable statutory rates to tax expense attributable to continuing operations are shown on the schedule below:

	2021	2020
Tax on pretax income at 25%	<b>P 29,096,621</b>	P 47,381,295
Adjustments for income subject to lower tax rates	<b>706,259</b>	1,157,998
Non-deductible interest expense	<b>227,341</b>	459,429
Disallowed penalty	-	1,081,199
Disallowed inventory loss	-	712,973
Interest income	<b>( 1,136,706 )</b>	( 1,392,208 )
DTA Adjustments - retirement liability	<b>( 762,802 )</b>	-
DTA Adjustments - unrealized forex loss	<b>( 1,457,751 )</b>	-
DTA Adjustments - actuarial loss	<b>( 4,531,036 )</b>	-
Reversal of unrealized forex loss	-	182,746
Reversal of DTA on warranty and rebates	-	59,216
Reversal of DTA on allowance for inventory obsolescence	-	554,497
Additional DTA on allowance for sales returns and allowances	-	<b>( 2,153,031 )</b>
Income tax expense	<b>P 22,141,925</b>	P 48,044,114

### 22.2 Deferred Taxes

This account consists of the following:

	2020		Change		2021	
	Tax Base	Amount	Tax Base	Amount	Tax Base	Amount
Retirement liability (Note 26.3)	P 43,016,811	P 10,754,203	P 8,449,427	P 2,112,357	P 51,466,238	P 12,866,560
Actuarial loss	-	-	5,396,587	1,349,147	5,396,587	1,349,147
Warranty and rebates	6,450,500	1,612,625	-	-	6,450,500	1,612,625
Impairment loss (Note 10)	16,752,075	4,188,019	-	-	16,752,075	4,188,019
Sales return and discount	5,070,632	1,267,658	-	-	5,070,632	1,267,658
Unrealized forex loss	828,436	207,109	( 1,569,510 )	( 392,377 )	741,074	185,269
Provision for credit losses	4,758,331	1,189,583	1,021,455	255,364	5,779,786	1,444,946
Reversal of DTA on unrealized forex loss	( 5,831,005 )	( 1,457,751 )	5,831,005	1,457,751	-	-
	<b>P 21,313,734</b>		<b>P 4,782,241</b>		<b>P 22,543,686</b>	



## 22.3 Supplementary information in compliance with RR15-2010

### Vat Payable

VAT Payable (Jan. 1, 2021)	a		P	5,386,359
		<u>Sales</u>	<u>Output VAT</u>	
Vatable Sales/Receipts for 2021	P	1,694,762,677	P	203,371,521
Zero-rated sales/receipts		-		-
Exempt sales/receipts		-		-
		<u>1,694,762,677</u>		<u>203,371,521</u>
Less:				
Allowable Input Tax:				
Purchases for the year		<u>Purchases</u>	<u>Input VAT</u>	
Input tax beg	P	-	P	-
Input Tax Deferred on capital goods exceeding P1M from prev. period				
Input Tax Carried from Current period				
Purchase of capital goods not exceeding P1m		-		-
Purchase of capital goods exceeding P1m		-		-
Domestic Purchase of Goods other than capital goods		-		-
Importation of goods other than capital goods		874,626,097		104,955,132
Domestic Purchase of Services		<u>119,221,342</u>		<u>14,306,561</u>
Total current purchases		<u>993,847,440</u>		<u>119,261,693</u>
Total Available Input Tax				119,261,693
Less: Deductions				
Input Tax on capital goods exceeding P1M deferred for succeeding period				
Input Tax allocable to exempt sales				
Input tax End				-
Sub-Total				-
Total Allowable Input Tax				<u>119,261,693</u>
Net VAT Payable (Overpayment) for 2021	b			89,496,187
Less: Payments				
Remittance of VAT Payable, Dec. 31, 2020			5,386,359	
Remittance of 2021 VAT Payable (January to November, 2021)	c		<u>80,837,920</u>	<u>86,224,279</u>
Tax Still Payable (overpayment) (a + b - c)			P	<u>3,271,908</u>

### Withholding Taxes

	<u>Remitted</u>	<u>Accrued</u>
Compensation		
Remittance of W/T Payable, Dec. 31, 2020	P 25,700	
Remittance of W/T Payable (January to November, 2021)	<u>420,680</u>	P <u>61,024</u>
Expanded		
Remittance of W/T Payable, Dec. 31, 2020	P 256,177	
Remittance of W/T Payable (January to November, 2021)	<u>2,508,357</u>	P <u>250,593</u>

### Creditable Withholding Tax

Creditable withholding Tax (BIR Form 2307)		
Balance, Jan. 1, 2021		P 7,538,788
Add: Creditable withholding tax received for the year		15,755,426
Less: Applications made		
Application made on 2020 income tax payable	7,538,788	
Application made during the year 2021	<u>10,010,298</u>	<u>17,549,086</u>
Balance, Dec. 31, 2021		P <u>5,745,128</u>

## Taxes and Licenses

	2021	2020
<u>General and Administrative Expenses</u>		
Municipal Taxes	P 4,388,492	P 11,250,062
Real Estate Taxes	2,759,576	-
Registration Fees	1,047,068	7,300
Inspection Fees	64,415	22,683
Community Tax Certificates	11,450	-
Documentary Stamp Tax	-	90
Others	44,823	130,330
	<u>8,315,824</u>	<u>11,410,465</u>
<u>Factory Overhead</u>		
Real Property Taxes and Other Fees (Note 17.2)	<u>5,738,975</u>	<u>7,985,680</u>
	<u>P 14,054,799</u>	<u>P 19,396,145</u>

## Ongoing Tax Audit and Settlements

On October 13, 2021, the Company received Letter of Authority (LOA) 54A-2021-0000321 dated October 12, 2021 covering all internal revenue taxes including documentary stamp tax and other taxes for the period January 1, 2020 to December 31, 2021. This LOA is still pending assessment as of December 31, 2021.

On September 15, 2020, the Company received Letter of Authority (LOA) 54A-2020-0000209 dated September 15, 2020 covering all internal revenue taxes including documentary stamp tax and other taxes for the period January 1, 2019 to December 31, 2019. In 2020, this LOA was settled amounting to P1,802,044.

## **22.4 Recent Tax Regulation**

The following are the major changes brought by new tax regulations that are relevant to the company:

- On December 19, 2017, President Rodrigo Duterte signed into law package 1 of the Tax Reform for Acceleration and Inclusion ("TRAIN") bill of or Republic Act No. 10963. The law contains amendments to several provisions of the National Internal Revenue Code of 1997 on individual income taxation, passive income for both individuals and corporations, estate tax, donor's tax, value added tax (VAT), excise tax, and documentary stamp tax ("DST"), among others. The said law shall be in effect starting on January 4, 2018.
- REVENUE REGULATIONS NO. 1-2016 issued on January 5, 2016 with respect to "De Minimis Benefits", stating "Benefits received by an employee by virtue of a collective bargaining agreement (CBA) and productivity incentive schemes provided that the total annual monetary value received from both CBA and productivity incentive schemes combined do not exceed ten thousand pesos (Php 10,000.00) per employee per taxable year".
- REVENUE REGULATIONS NO. 3-2016 issued on March 13, 2016 implements the provision of Republic Act No. 10653, more particularly on the increase to P 82,000.00 of the total amount of exclusion from gross income for 13th month pay and other benefits beginning January 1, 2016, and shall in no case apply to other compensation received by an employee under an employer-employee relationship, such as basic salary and other allowances.



- d) REVENUE REGULATIONS NO. 5-2016 issued on March 17, 2016 amends Revenue Regulations (RR) No. 6-2015 and imposes penalties to taxpayers mandatorily covered by the Electronic Filing and Payment System (eFPS) or Electronic Bureau of Internal Revenue Forms (eBIRForms) who failed to file tax returns under the electronic systems of the BIR.
- e) REVENUE REGULATIONS NO. 12-2015 amends Section 2.58.5 of Revenue Regulation No. 2-98 Requirements of deductibility. Any income payment which is otherwise deductible under the Code shall be allowed as a deduction from the payors' gross income only if it shown that the income tax required to be withheld has been paid to the Bureau in accordance with Secs. 57 and 58 of the Code. "No deduction will also be allowed notwithstanding payments of withholding tax at the time of the audit investigation or reinvestigation/reconsideration in cases where no withholding of tax was made in accordance with Secs. 57 and 58 of the Code."
- f) REVENUE REGULATION NO. 2-2016 issued on February 3, 2016 prescribes the Income Tax forms, which will be used for Income Tax Returns (ITRs) filing covering and starting taxable year December 31, 2015 by all taxpayer who are required to file their ITRs under Section 51(A)(1) of the Tax Code and those who are not required to file under Section 51(A) (2) but who opted to do so BIR Form No. 1700, 1702-RT, 1702-EX, 1702-MX version June 2015. The requirement for entering centavos in the ITR has been eliminated.

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#### **Note 23 – RELATED PARTIES TRANSACTIONS**

The transactions between related parties are based on terms similar to those offered to non-related parties. Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions and the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

a. Due to Related Parties

The Company obtained unsecure, non-interest-bearing advances from its former shareholder for working capital requirements and capital expenditure in 2008 and prior years which has an outstanding balance of P18,694,404 for both years 2021 and 2020, respectively. *(See Note 16.2)*

b. Key Management Compensation

Key management personnel of the Company include all management committee officers. The compensation of key management personnel for the year totals P6,705,441 and P5,925,062 for 2021 and 2020, respectively.

Below is the breakdown as follows:

	2021	2020
Salaries	4,292,987	3,749,824
Short-term benefits		
SSS/HDMF contributions	191,942	166,729
Health insurance	77,518	67,839
Employee benefits	38,454	34,844
Long-term benefits		
Retirement benefits	2,104,542	1,905,826
Total	<u>P 6,705,441</u>	<u>P 5,925,062</u>

c. Director's fee

The Company made payment in its directors amounting to P2,659,474 and P2,559,474 as a of December 31, 2021 and 2020, respectively. (See Note 21)

d. Advances to officers and employees

The Company made advances to its officers and employees with outstanding balance of P4,259,630 and P4,270,877 for the year 2021 and 2020, respectively. (See Note 7)

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## Note 24 – EARNINGS PER SHARE

The Company's basic earnings per share were computed as follow:

	2021	2020
Net Income	P 94,244,558	P 109,893,535
Divided by weighted average outstanding shares	50,000,000	50,000,000
	<u>P 1.88</u>	<u>P 2.20</u>

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## Note 25 – EQUITY

### 25.1 Share Capital

The Company's authorized capital stock amounting to P500,000,000 divided into 50,000,000 shares is fully subscribed and paid-up for both year 2021 and 2020. (see Note 1)



### 25.3 Other Comprehensive Income

Analysis of other comprehensive income is presented as follows:

2021			
	Actuarial gains/losses - DBO		Total
Beginning Balance	( P	13,593,109)	( P 13,593,109)
Changes during the year		9,545,672	9,545,672
Ending Balance	( P	4,047,437)	( P 4,047,437)

2020			
	Actuarial gains/losses - DBO		Total
Beginning Balance	( P	7,763,343)	( P 7,763,343)
Changes during the year	(	5,829,766)	( 5,829,766)
Ending Balance	( P	13,593,109)	( P 13,593,109)

### 25.5 Dividend Declaration, Appropriation and Pay-out

#### Year 2021

In a meeting held on May 25, 2021, the Company's stockholders unanimously approved and ratified the declaration and distribution of 16% cash dividends to all stockholders of record as of May 25, 2021 in the total amount of P80,000,000 to be taken out of Unappropriated Retained Earnings as audited by the external auditors.

These dividends represented dividends appropriated in 2020.

#### Year 2020

In a meeting held on July 15, 2020, the Company's stockholders unanimously approved and ratified the declaration and distribution of sixteen percent (16%) cash dividends to all stockholders of record as of July 15, 2020 amounting to P80,000,000 to be taken out of Unappropriated Retained Earnings after the completion of the audit of the Company's financial statements for 2020.

On July 28, 2020, total dividends paid amounted to P80,000,000 representing dividends appropriated in 2019.

#### Year 2019

On May 29, 2019, the Company's stockholders unanimously approved and ratified the declaration and distribution of sixteen (16%) percent cash dividends to all stockholders of record in total amount of P80,000,000 to be paid out in 2020.

The 5-year analyses on retained earnings for the cash dividend declaration is shown as follows:

**5-Year Analyses on Retained Earnings for Cash Dividend Declaration**

KOLIN PHILIPPINES INTERNATIONAL, INC. FCIE Barrio Langkaan, Dasmariñas, Cavite Analyses of Retained Earnings Cash Dividend Declaration		
		2021
Unappropriated Retained Earnings(Deficit), as Adjusted to available for dividend distribution, beginning		P 462,596,272
<b>Add: Net Income actually earned / realized during the period</b>		
Net income (loss) during the period closed to Retained Earnings	93,138,549	
Less: Non-actual / unrealized income net of tax		
Equity in net income of associated / joint venture		
Unrealized foreign exchange gain - net (except those attributable to Cash and cash equivalent)		
Unrealized actuarial gain		
Fair value adjustment (Market to market gains)		
Fair value adjustment of investment property resulting to gain		
Adjustment due to deviation from PFRS / GAAP-gain		
Other unrealized gains or adjustment to the retained earnings as a result of certain transactions accounted for under the PFRS	-	
Sub-total	-	
Add: Non-actual losses		
Depreciation on revaluation increment		
Adjustment due to deviation from PFRS / GAAP - loss		
Fair value adjustment (Market to market losses)		
Unrealized foreign exchange loss		
Loss on fair value adjustment of investment property (After Tax)	-	
<b>Net Income actually earned during the period</b>		93,138,549
Add (less):		
Cash dividend declaration during the period	-	
Stock dividend declaration during the period		
Appropriations of retained earnings during the period	-	
Reversal of appropriations		
Effects of prior period adjustment	-	
Treasury shares		
<b>TOTAL RETAINED EARNINGS (DEFICIT), END AVAILABLE FOR DIVIDEND</b>		<b>P 555,734,821</b>
<b>APPROPRIATED RETAINED EARNINGS</b>		
<b>Beginning</b>		80,000,000
<b>Add:</b> Appropriations during the year	-	
<b>Less:</b>		
Dividends paid	(80,000,000)	
Increase in capital	-	
		(80,000,000)
<b>APPROPRIATED RETAINED EARNINGS, END</b>		<b>-</b>



## 25.6 Prior Period Adjustment

On February 4, 2021, the Bicameral Conference Committee approved the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act and the final version was subsequently ratified by the Congress. Pursuant to Sec. 27 of Article VI of the 1987 Philippine Constitution, every bill passed by the Congress shall, before it becomes a law, be presented to the President for his approval. The President also has the power to veto it and return the same with his objections to the House for reconsideration. If, after such reconsideration, two-third (2/3) of all the members of the House shall agree to pass the bill, it shall become a law.

Given the approval of CREATE Act, the Company used the revised tax rate of 25% in computing for deferred taxes beginning January 1, 2021. Such rate is applicable for all domestic corporation with total assets of ₱100 million and below, and with net taxable income of ₱5 million and below. The rest shall be taxed at 25%.

The change in future tax rate resulted to a prior period adjustments in deferred tax asset as shown in below:

	Deferred Tax Asset	Unappropriated Retained Earnings
Balances, Jan. 1, 2021 before restatement	P 21,313,734	P 466,148,561
Prior period adjustments:		
Deferred tax assets	( 3,552,289 )	( 3,552,289 )
Balances, Jan. 1, 2021 after restatement	P 17,761,445	P 462,596,272

## Note 26 – EMPLOYEE BENEFITS

### 26.1 Short Term Benefits

The Company currently provides short-term benefits to its employees such as 13<sup>th</sup> month pay, bonus, leave and other benefits. Expenses recognized for employee benefits are as follows:

	2021	2020
Cost of sales	P 2,789,032	P 1,781,444
General and Administrative	4,844,513	3,917,244
	<u>P 7,633,545</u>	<u>P 5,698,689</u>

### 26.2 Long-Term Benefits

As at 2021 and 2020, the Company provided employee retirement benefits amounting to P8,898,217 and P6,454,111, respectively. (See Note 21)

### 26.3 Retirement Liability

#### a) Characteristics of Defined Benefits Plan and its Associated Risks

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at December 31, 2021, by EM Zalamea Actuarial Services, Inc. in the latter's report dated December 10, 2021. The Present Value of defined benefit obligation, and the related current service cost, was measured using Projected Unit Credit Method taking into account the factors of interest, mortality, viability and salary projection rates.

The Company's retirement plan is a non-contributory defined benefit type which provides retirement benefit equal to 22.5 days' Pay for every year of credited service in accordance with the Retirement Law (Republic Act No. 7641). The benefit is paid in lump sum upon retirement or separation in accordance with the terms of the Plan

The following table summarizes the components of pension expense recognized in the Company's consolidated Statement of Comprehensive Income and the funded status and amounts recognized in the Company's Consolidated Statement of Financial Position.

*b) Amounts Recognized in the Financial Statements*

- The Pension Expense recognized in Profit or Loss as of December 31, 2021 and 2020 are as follow:

	2021	2020
Current Service Cost	P 7,076,941	P 4,775,441
Interest Cost	2,025,926	1,883,971
Interest Income on Plan Assets	( 204,650 )	( 205,301 )
	<u>P 8,898,217</u>	<u>P 6,454,111</u>

- Re – measurement effects to be recognized outside of profit or loss and into other comprehensive income in the Statements of Comprehensive Income are as follow:

	2021	2020
Actuarial gains (losses)	( P 12,821,484 )	P 8,289,611
Remeasurement loss on plan asset	93,922	38,626
	( 12,727,562 )	8,328,237
Tax Effect	3,181,891	( 2,498,471 )
	<u>( P 9,545,672 )</u>	<u>P 5,829,766</u>

- The movements in the present value of obligation for 2021 and 2020 are as follow:

	2021	2020
Beginning	P 50,902,660	P 35,953,637
Current Service Cost	7,076,941	4,775,441
Interest Cost	2,025,926	1,883,971
Past Service Cost	-	-
Benefits Paid	(2,885,359)	-
Actuarial gains (loss) on :		
- Changes in financial assumption	( 7,933,864 )	9,468,778
- Experience	( 4,431,088 )	( 1,179,167 )
-Change in demographic assumption	( 456,532 )	-
Ending	<u>P 44,298,684</u>	<u>P 50,902,660</u>



- The changes in the fair value of plan assets are as follow

	2021	2020
Beginning	P 4,834,639	P 3,167,964
Interest income	204,650	205,301
Return on Plan Assets	( 93,922 )	( 38,626 )
Contributions	3,500,000	1,500,000
Benefits paid from plan assets	( 2,885,359 )	-
Ending	P 5,560,008	P 4,834,639

The Retirement Trust Fund assets are valued by the fund manager at fair value using the mark-to-market valuation. While no significant changes in asset allocation are expected in the next financial year, the Retirement Plan Trustee may make changes at any time.

- The Pension Benefit Obligation to be recognized as retirement liability in the Statement of Financial Position as of December 31, 2021 and 2020 are P38,738,676 and P46,068,021, respectively.

	2021	2020
Present Value of DBO	P 44,298,684	P 50,902,660
Fair Value of PA	( 5,560,008 )	( 4,834,639 )
Ending	P 38,738,676	P 46,068,021

The principal actuarial assumptions used in determining pension benefit obligation for the subsidiary's plan follows:

	2021	2020
Discount Rate	: 5.00%	3.98%
Salary Projection Rate	: 5.00%	5.00%
Disability Rate	: The Disability Study, Period 2 Benefit 5 (Society of Actuaries)	
Retirement Date	: Age 60	
Projected Retirement Benefit	: 22.5 days Pay per year of service in accordance with RA 7641	
Actuarial Cost Method	: Projected Unit Credit Method	
Manner of Benefit Payment	: Lump Sum	

The valuation results are based on the employee data as of the valuation dates as provided by the Company. The discount rate assumption is based on the PDEx (PDST-R2) benchmark market yields on government bonds as of December 5, 2019 considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

The mortality rate are based on 2017 Philippine Intercompany Mortality table and the 2001 CSO table- generational ( Scale AA. Society of Actuaries) for the year ending December 31, 2021 and 2020, respectively.

### *Sensitivity Analysis*

Each Sensitivity Analysis on the significant actuarial assumptions was prepared by remeasuring the DBO at the balance sheet date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

#### ***Sensitivity Analysis, 2021 Year-end Defined Benefit Obligation (DBO)***

Decrease in DBO due to 100bps Increase in Discount Rate	(6,232,496) ;	-14%
Increase in DBO due to 100bps Decrease in Discount Rate	7,760,198 ;	18%
Increase in DBO due to 100bps Increase in Salary Increase Rate	7,678,576 ;	17%
Decrease in DBO due to 100bps Decrease in Salary Decrease Rat	(6,286,191) ;	-14%
Increase in DBO, No attrition rates	7,728,867 ;	17%

#### ***Sensitivity Analysis, 2020 Year-end Defined Benefit Obligation (DBO)***

Decrease in DBO due to 100bps Increase in Discount Rate	(7,732,610) ;	-15.2%
Increase in DBO due to 100bps Decrease in Discount Rate	9,787,162 ;	19.2%
Increase in DBO due to 100bps Increase in Salary Increase Rate	9,577,774 ;	18.8%
Decrease in DBO due to 100bps Decrease in Salary Decrease Rat	(7,731,283) ;	-15.2%
Increase in DBO, No attrition rates	11,359,340 ;	22.3%

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### **Note 27 – CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES**

The Company manages its paid – up capital, treasury shares and retained earnings as capital. The Company's over-all objective when managing capital is to maintain its ability to continue as a going concern entity and to maintain optimal capital structure so as to maximize shareholder value. In order to or achieve an optimal capital structure, the Company may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

The Company monitors capital on the basis of the carrying amount of equity as presented on the face of the Statement of Financial Position. Capital for the reporting periods under review is summarized as follows:

		2021		2020
Total Liabilities	P	555,650,166	P	586,238,610
Total Equity		1,056,338,196		1,032,547,966
Debt-to-Equity Ratio	P	0.53	P	0.57



The Company's goal in capital management is to maintain a debt-to-equity structure ratio of 1:1 to 1:2 on a monthly basis as of reporting year, the company has attained its debt-to-equity structure.

The Company sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities. The Company manages the capital structure and makes adjustments to it in 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 issue new shares, earn or sell assets to reduce debt.

## **Note 28 – RISK MANAGEMENT OBJECTIVES AND POLICIES**

### **28.1 Financial Risk**

The Company is exposed to a variety of financial risks through its financial assets, financial liabilities (insurance contracts and borrowings), reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long term, the proceeds of its investments may not be sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are credit risk, liquidity risk and interest rate risk.

The Company manages these positions within a framework that has been developed through the years by its investment management team to long-term investment returns in excess of its obligations under its insurance contracts. The Company periodically produces reports at portfolio, legal entity and asset and liability class level and circulates these to the Company's key management team. The principal technique is to match the assets against the liabilities arising from the insurance contracts by reference to the type of claims payable to the contract holders. For each claim type, a separate portfolio of assets is maintained. The Company has not changed the processes used to manage its risks from previous period.

The carrying value and estimated fair values of the Company's financial assets and liabilities for the year ended December 31 are presented in the table below:

	2021		2020	
	Current Value	Fair value	Current Value	Fair value
<i>Financial asset at amortized cost</i>				
Cash and Cash Equivalents	P 357,174,329	P 357,174,329	P 292,966,821	P 292,966,821
Receivables	313,578,655	313,578,655	278,460,567	278,460,567
Other receivables	5,905,611	5,905,611	5,689,624	5,689,624
Investment in bonds	79,993,822	79,993,822	50,000,000	50,000,000
	<b>P 756,652,417</b>	<b>P 756,652,417</b>	<b>P 627,117,012</b>	<b>P 627,117,012</b>
<i>Financial liabilities at amortized cost</i>				
Trade Payables	P 122,565,299	P 122,565,299	P 126,205,333	P 126,205,333
Short-term Loans	359,622,177	359,622,177	369,382,228	369,382,228
Retirement Liability	38,738,676	38,738,676	46,068,021	46,068,021
Long-term loans	18,694,403	18,694,403	18,694,403	18,694,403
Other payables	11,895,414	11,895,414	13,509,850	13,509,850
	<b>P 551,515,969</b>	<b>P 551,515,969</b>	<b>P 573,859,835</b>	<b>P 573,859,835</b>

The carrying amounts approximate their fair values due to relatively short-term maturity of these financial instruments. Similarly, the historical cost carrying amounts of receivables and payables approximate their fair values.

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 together with the Company's risk management policies.

#### Fair value hierarchy

In determining the fair value of its assets and liabilities, the Company takes into account the following:

- characteristics of the asset and liability being measured that a market participant would take into account when pricing the asset or liability at measurement date
- for a non-financial asset, the valuation premise that is appropriate for the measurement
- The principal or most advantageous market for the asset or liability
- The valuation technique appropriate for the measurement considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability; and
- The level of hierarchy within which the inputs are categorized.

A fair value of a non-financial asset takes into account the highest and best use of the asset. The fair value of a liability reflects non-performance risk including an entity's own risk and assuming the same non-performing risk before and after the transfer of liability.

The different levels of financial instruments carried at fair value, by valuation method have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 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 is not based on observable market data (unobservable inputs).

As of December 31, 2021, the Company has no financial assets and non-financial assets valued using any of the different levels of financial instruments carried at fair value.

## **28.2 Currency risk**

The Company's principal transactions are carried out in Philippine Peso (₱) and its exposure to foreign exchange risk arises primarily with the US Dollar (USD) arises from its investments in foreign currency deposits.



The analysis in the next page is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets).

	Increase(decrease) in Peso per US\$ Depreciation (Appreciates)	Impact on Profit Before tax
<b>December 31, 2021</b>		
USD	+P 2	<b>188,489</b>
USD	-P 2	<b>(188,489)</b>
 December 31, 2020		
USD	+P 2	219,787
USD	-P 2	(219,787)

There is no other impact on the Company's equity other than those already affecting the profit and loss.

### 28.3 Credit risk

Credit risk arises from cash deposits with banks and financial institutions, including outstanding other receivables. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The Company provides an allowance for credit losses based on their age as follows:

	1 - 30 Days	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 - 150 Days	151 Days ++	BALANCE
Trade receivables	P 122,242,851	P 110,289,337	P 45,147,391	P 22,909,003	P 1,479,037	P 16,776,242	P 318,843,860
% of allowance	1%	2%	2%	3%	5%	5%	
ALLOW FOR CREDIT LOSSES	P 1,222,429	P 1,654,340	P 902,948	P 572,725	P 73,952	P 838,812	P 5,265,205

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the statement of financial position (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The information on the credit quality of the Company's financial assets is presented in the tables below according to the Company's credit ratings of the counterparties as of December 31, 2021 and 2020:

2021	Neither past due nor impaired			Past due or	Total
	High	Medium	Low	Impaired	
Cash and Cash Equivalents	P 356,914,329		P 260,000		P 357,174,329
Receivables		319,484,266		5,779,785	325,264,051
	P356,914,329	P319,484,266	P260,000	P5,779,785	P682,438,380

2020	Neither past due nor impaired			Past due or	Total
	High	Medium	Low	Impaired	
Cash and Cash Equivalents	P 292,731,821		P 235,000		P 292,966,821
Receivables		284,150,190		4,758,331	288,908,521
	P292,731,821	P284,150,190	P235,000	P4,758,331	P581,875,342

High grade pertains to cash and cash equivalents composed of short-term placements and cash deposits in high ranking banks of the Philippines and the related interests thereon, quoted financial assets and receivables from counter parties that are proven to be capable of meeting its obligations.

Medium grade refers to non-quoted financial assets and receivables from counterparties who are believed to have an average capability to meet its obligations.

Credit risk exposure in respect of all other counterparties is managed by setting standard business terms that are required to be met by all counterparties.

During the year, the claims paying ability rating of the Company was maintained at A- (single A minus) while the Company's USD denominated issuer credit rating remains at B+ (single B plus) both investment grade ratings were accorded by Global Credit Rating Co., following an on-site due diligence in the Philippines.

The Company's corporate sales group and branches group are equipped with specific guidelines to ensure that overdue accounts do not exceed its strategic level. Cancellation of policies that exceed the tolerable level is likewise imposed.

#### **28.4 Liquidity Risk**

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due as a result of policyholders claim payments, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for operational, trading and investment activities. In extreme circumstances, lack of liquidity could result in reductions in the Consolidated Statement of Financial Position and sales of assets, or potentially an inability to fulfill policyholder commitments. The risk that the Company will be unable to do so is inherent in all insurance operations and can be affected by a range of institution-specific and market-wide events including but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Company's liquidity management process, as carried out within the Company and monitored by a the Company's Treasury team, includes day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met, maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow and monitoring the liquidity ratios of the Company's Consolidated Statement of Financial Position against internal and regulatory requirements.

Monitoring and reporting takes the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risks may result from



difficulty in collections or inability to generate cash inflows as anticipated. The Company's objective in managing its profile is:

- To ensure that adequate funding is available at all times;
- To meet commitments as they arise without incurring unnecessary costs; and,
- To be able to access funding when needed at the least possible cost.

An analysis of the Company's liabilities relevant to their maturity based on the remaining period as of reporting date to their contractual maturity and repayment dates is shown in the table below:

2021	within a year	2-3 years	4-5 years	over 5 years	No term	Total
Trade and Other Payables	P122,565,299	-	-	-	-	P122,565,299
Other Current Liabilities	11,895,414	-	-	-	-	P11,895,414
Term Loans Payable	359,622,177	18,694,403	-	-	-	378,316,580
Retirement liability	-	-	-	38,738,676	-	38,738,676
	P494,082,890	P18,694,403	-	P38,738,676	-	P551,515,969

2020	within a year	2-3 years	4-5 years	over 5 years	No term	Total
Trade and Other Payables	P126,205,333	-	-	-	-	P126,205,333
Other Current Liabilities	13,509,850	-	-	-	-	P13,509,850
Term Loans Payable	369,382,228	18,694,403	-	-	-	388,076,631
Retirement liability	-	-	-	46,068,021	-	46,068,021
	P509,097,411	P18,694,403	-	-	-	P573,859,835

## 28.5 Cash flow and fair value interest rate risks

Cash flow and fair value interest rate risks are managed by means of derivative financial instruments, where necessary, to ensure short to medium-term liquidity.

Interest rate risk arises when there is a possible change on interest rate of +100 basis points and -100 basis points every quarterly re-pricing, which will affect future cash flows or fair value of financial instruments. These changes are considered to be reasonably possible based on observation of current market conditions. All other variables are held constant. The Company has financial liabilities with interest rates re-priced on a quarterly basis as shown below:

2021			Change in +100 basis points		Change in -100 basis points	
			Effects on net results	Effect on Equity	Effects on net results	Effect on Equity
Short - term Loans	P	359,622,177	(P 3,596,222)	(P 2,517,355)	P 3,596,222	P 2,517,355

2020			Change in +100 basis points		Change in -100 basis points	
			Effects on net results	Effect on Equity	Effects on net results	Effect on Equity
Short - term Loans	P	369,382,228	(P 3,693,822)	(P 2,585,676)	P 3,693,822	P 2,585,676

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**Note 29 - EVENTS AFTER REPORTING DATE****29.1 Effects of COVID-19****29.1a Effects on the Economy in General and Measures Undertaken**

The economic rebound gained momentum in the third quarter of 2021 despite another COVID-19 wave. The Philippines has, so far, faced its worst infection wave in September when the 7-day daily average reached about 21,000 cases due to the Delta variant. In response, the authorities reimposed stringent mobility restrictions in Metro Manila and other key metropolitan areas. Nonetheless, compared with previous waves, domestic activity has been less sensitive to infections. Public containment measures constrained overall mobility less, while households and firms have learned to cope with infections and diminished mobility. As a result, the growth momentum was not severely hampered, and the third quarter growth surprised on the upside, exceeding market expectations.

The imposition of stringent mobility restrictions which include closure of malls whenever there are infection waves cause effects on the Company's revenues.

The revenues generated during the year are slightly lower than those of 2020 and around 67% of 2019 level.

However, the first quarter revenues of the Company in 2022 have almost attained its 2019 levels. The Company has identified the effect of the typhoon calamity which occurred in Cebu in December of 2021 and continued to affect the sales generated by the branch the coming quarter triggered also by the loss of electricity. If not for the calamity, the Company may have surpassed its expectations for the first quarter.

Due to uncertainties of a recurrence of another infection wave, the Company has instituted certain measures and/or programs to allow the Company to continue its operations despite the mobility restrictions that may again be imposed.

**29.2 Others**

There were no other material events that occurred subsequent to December 31, 2021 that were not reflected in the financial statements for the period.

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**Note 30 - COMMITMENTS AND CONTINGENCIES****30.1 Lease Commitments*****For its store spaces***

The Company entered into various cancellable operating lease contracts for its store spaces in various key provinces covering a period on one year renewable annually with either no escalation or with 5% escalation.

Aggregate security deposits in 2021 and 2020 amounted to P829,964 and P817,164 in 2021 and 2020, respectively. Aggregate rent expense incurred by the Company amounted to P2,400,100 in 2021 P2,388,571 in 2020. (See Notes 13 and 21)



### 30.2 Assembly Services Contracts

The Company enters into one-year renewable assembly services contract with Skyworth (Philippines) Corporation (“Skyworth”) wherein the Company is appointed as the service provider in the assembly, inspection or testing of Skyworth audio and video products in the Philippines. Assembly fees earned from these Assembly Services Contracts amounted to P10,207,763 and P18,095,377 on December 31, 2021 and 2020, respectively. (See Note 19)

### 30.3 Others

As of December 31, 2021, there are no other pending claims and legal actions against or involving the Company other than those arising from the normal course of business. Also, the Company makes various commitments and incurs certain contingent liabilities that are not given recognition in the accompanying financial statements. The Company’s management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Company’s consolidated financial statements.

## Note 31 – NOTES TO STATEMENT OF CASH FLOWS

The most significant cash flow activities from the consolidated statement of cash flows are the following:

### 31.1 From Investing Activities

The Company also acquires various property and equipment amounting to P14,112,219 and P30,369,024 in 2021 and 2020, respectively (see Note 10). Additionally, short term investments were acquired amounting to P30,000,000 in 2021 (see Note 9.2).

### 31.2 From Financing Activities

During the year, the Company paid cash dividends amounting to P80,000,000 (see Note 25.5). Proceeds from and repayments to its short term loans amount to P338,676,271 and P348,436,322, respectively. (See Note 16)

	Note	Liabilities	Equity			
		Other loans and borrowings	Share capital/premium	Retained Earnings		Total
Balance at 1 January 2021		P 388,076,631	P 503,544,803	P 542,596,272	P	1,434,217,706
<b>Changes from financing cash flows</b>						
Proceeds from loans and borrowings	16	338,676,271	-	-		338,676,271
Proceeds from additional paid-up capital		-	-	-		-
Proceeds from settlement of derivatives		-	-	-		-
Repayment of borrowings	16	( 348,436,322 )	-	-		( 348,436,322 )
Payment of finance lease liabilities		-	-	-		-
Dividends paid	25.5	-	-	( 80,000,000 )	(	( 80,000,000 )
<b>Total changes from financing cash flows</b>		( 9,760,051 )	-	( 80,000,000 )	(	( 89,760,051 )
<b>The effect of changes in foreign exchange rates</b>		-	-	-		-
<b>Changes in fair value</b>		-	-	-		-
<b>Total equity-related other changes</b>		-	-	-		-
Balance at 31 December 2021		P 378,316,580	P 503,544,803	P 462,596,272	P	1,344,457,655

## REPORT OF INDEPENDENT PUBLIC AUDITORS TO ACCOMPANY SEC SCHEDULES FILED SEPARATELY FROM THE BASIC FINANCIAL STATEMENTS

The Board of Directors

**KOLIN PHILIPPINES INTERNATIONAL, INC**

First Cavite Industrial Estate, Brgy Lankaan, Cavite

We have audited the financial statements of **KOLIN PHILIPPINES INT'L, INC** (the Company) for the year ended December 31, 2021, on which we have rendered our report dated April 12, 2022. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (enumerated in table of contents) of the Company as of December 31, 2021 and for the year ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules 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.

### **KL SIY & ASSOCIATES**

BOA Accreditation No. 0668

Effective until March 22, 2024

TIN No. 215-665-658-000

BIR Accreditation No. 07-100131-001-2020

Effective until April 23, 2023

IC Accreditation No. 0668-IC (Group B)

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 0668-BSP

Effective until December 31, 2024

By:



**KATHLEEN MARY L. SIY**

Managing Partner

CPA Certificate No. 45337

BOA Accreditation No. 0668

Effective until March 22, 2024

BIR Accreditation No. 07-100131-001-2020

Effective until April 13, 2023

IC Accreditation No. 45337-IC

Effective until December 31, 2024

Bangko Sentral ng Pilipinas (BSP) Group B

Accreditation No. 45337-BSP

Effective until December 31, 2024

TIN No. 303-141-768-000

PTR NO. 8131509, January 11, 2022, Pasig City

April 12, 2022

Ortigas Center, Pasig City



# SCHEDULE I

## KOLIN PHILIPPINES INTERNATIONAL, INC PFRS STANDARDS AND INTERPRETATIONS APPLIED SRC RULE 68.1 AS AMENDED (2011) As at year ended December 31, 2021 AND 2020

Below are all the standards and interpretation s existing in the Philippines and an indication of whether it is "Adopted", "Not Adopted", and "Not Applicable".

PHILIPPINE FINANCIAL REPORTING STANDARDS, AMENDMENTS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics		√		
<b>PFRSs Practice Statement Management Commentary</b>			√	
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	<i>First-time Adoption of Philippine Financial Reporting Standards</i>			√
	<i>Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>			√
	<i>Amendments to PFRS 1: Additional Exemptions for First-time Adopters</i>			√
	<i>Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters</i>			√
	<i>Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters</i>			√
	<i>Amendments to PFRS 1: Government Loans</i>			√
<b>PFRS 2</b>	Share-based Payment			√
	<i>Amendments to PFRS 2: Vesting Conditions and Cancellations</i>			√
	<i>Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions</i>			√
<b>PFRS 3 (Revised)</b>	Business Combinations			√
<b>PFRS 4</b>	Insurance Contracts			√
	<i>Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts</i>			√
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			√
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			√

# SCHEDULE I

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	√		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective date and Transition	√		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	√		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	√		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	√		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	√		
PFRS 8	Operating Segments			√
PFRS 9	Financial Instruments: Complete and Final Version*	√		
	Amendments to PFRS 9: Mandatory Effective date of PFRS 9 and Transition Disclosures	√		
PFRS 10	Consolidated Financial Statements			√
PFRS 11	Joint Arrangements			√
PFRS 12	Disclosure of Interests in Other Entities			√
PFRS 13	Fair Value Measurement	√		
PFRS 14	Regulatory Deferral of Accounts			√
PFRS 15	Revenue from Contracts with Customers	√		
PFRS 16	Leases	√		
PFRS 17	Insurance Contracts			√
Philippine Accounting Standards		ADOPTED	NOT ADOPTED	NOT APPLICABLE
PAS 1 (Revised)	Presentation of Financial Statements	√		
	Amendments to PAS 1: Capital Disclosures			√
	Amendments to PAS 32: and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	√		
	Amendments to PAS 1: Presentation of items of Other Comprehensive Income			√
PAS 2	Inventories			√



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<b>PAS 7</b>	Statement of Cash Flows	√		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	√		
<b>PAS 10</b>	Events after the Reporting Period	√		
<b>PAS 11</b>	Construction Contracts			√
<b>PAS 12</b>	Income Taxes	√		
	Amendment to PAS 12: <i>Deferred Tax: Recovery of Underlying Assets</i>	√		
<b>PAS 16</b>	Property, Plant and Equipment	√		
<b>PAS 17</b>	Leases	√		
<b>PAS 18</b>	Revenue	√		
<b>PAS 19 (Amended 2011)</b>	Employee Benefits	√		
	Amendments to PAS 19: <i>Employee Benefits - Defined Benefit Plans; Employee Contributions</i>	√		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			√
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	√		
	Amendment: Net Investment in a Foreign Operation			√
<b>PAS 23 (Revised)</b>	Borrowing Costs	√		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	√		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans	√		
<b>PAS 27 (Amended 2011)</b>	Consolidated and Separate Financial Statements			√
<b>PAS 28 (Amended)</b>	Investments in Associates			√
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			√
<b>PAS 31</b>	Interests in Joint Ventures			√
<b>PAS 32</b>	Financial Instruments: <i>Disclosure and Presentation</i>	√		
	Amendments to PAS 32 and PAS 1 : <i>Puttable Financial Instruments and Obligations Arising on Liquidation</i>			√
	Amendment to PAS 32: <i>Classification of Rights Issues</i>			√
	Amendments to PAS 32: <i>Offsetting Financial Assets and Financial Liabilities</i>	√		
<b>PAS 33</b>	Earnings per Share	√		
<b>PAS 34</b>	Interim Financial Reporting			√
<b>PAS 36</b>	Impairment of Assets	√		

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<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	√		
<b>PAS 38</b>	Intangible Assets	√		
<b>PAS 39</b>	Financial Instruments: <i>Recognition and Measurement</i>	√		
	Amendments to PAS 39: <i>Transition and Initial Recognition of Financial Assets and Financial Liabilities</i>	√		
	Amendments to PAS 39: <i>Cash Flow Hedge Accounting of Forecast Intragroup Transactions</i>			√
	Amendments to PAS 39: <i>The Fair Value Option</i>			√
	Amendments to PAS 39 and PFRS 4: <i>Financial Guarantee Contracts</i>			√
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets</i>			√
	Amendments to PAS 39 and PFRS 7: <i>Reclassification of Financial Assets – Effective Date and Transition</i>			√
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: <i>Embedded Derivatives</i>			√
	Amendment to PAS 39: <i>Eligible Hedged Items</i>			√
<b>PAS 40</b>	Investment Property			√
<b>PAS 41</b>	Agriculture			√
<b>IFRIC Interpretations</b>		<b>ADOPTED</b>	<b>NOT ADOPTED</b>	<b>NOT APPLICABLE</b>
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			√
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			√
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease			√
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			√
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			√
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			√
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			√
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			√
	Amendments to Philippine Interpretation IFRIC 9 and Revised IFRS 3: Scope of IFRIC 9 and revised IFRS 3			√
<b>IFRIC 10</b>	<i>Interim Financial Reporting and Impairment</i>			√
<b>IFRIC 12</b>	Service Concession Arrangements			√



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IFRIC 13	Customer Loyalty Programmes			√
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			√
	Amendments to Philippine Interpretations IFRIC-14: <i>Prepayments of a Minimum Funding Requirement</i>			√
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			√
IFRIC 17	Distributions of Non-cash Assets to Owners			√
IFRIC 18	Transfers of Assets from Customers			√
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			√
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			√
IFRIC 21	Levies			√
IFRIC 22	Foreign Currency Transactions and Advance Consideration	√		
IFRIC 23	Uncertainty over Income Tax Treatments	√		
<b>SIC Interpretations</b>		<b>ADOPTED</b>	<b>NOT ADOPTED</b>	<b>NOT APPLICABLE</b>
SIC-7	Introduction of the Euro			√
SIC-10	Government Assistance - No Specific Relation to Operating Activities			√
SIC-12	Consolidation – Special Purpose Entities			√
	Amendment to SIC- 12: Scope of SIC 12			√
SIC-13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			√
SIC-15	Operating Leases - Incentives			√
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			√
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			√
SIC-29	Service Concession Arrangements: Disclosures.			√
SIC-31	Revenue – Barter Transaction Involving Advertising Services			√
SIC-32	Intangible Assets - Web Site Costs			√
SIC-33	Consolidation and Equity Method – Potential Voting Rights and allocation of Ownership Interest			√

\* Not early adopted