SMRC Automotives Technology Phil. Inc.

(Formerly Reydel Automotive Phils. Inc., a Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

Financial Statements
December 31, 2018
(With Comparative Figures
as at December 31, 2017 and
for the Year Ended December 31, 2017)

and

Independent Auditor's Report

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
SMRC Automotives Technology Phil. Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SMRC Automotives Technology Phil. Inc. (formerly Reydel Automotive Phils. Inc., a wholly-owned subsidiary of SMRC Automotive Holdings Netherlands B.V., the Company), which comprise the statement of financial position as at December 31, 2018 and the statement of comprehensive income, statement of changes in capital deficiency and statement 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 position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

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 Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company as at and for the year ended December 31, 2017 (not presented herein) were audited by another auditor who expressed an unqualified opinion on those statements on January 15, 2018. As part of our audit of the financial statements as at and for the year ended December 31, 2018, we also audited the adjustments described in Note 16 to the financial statements that were applied to the 2017 financial statements to come up with the statement of financial position as at December 31, 2017 presented as corresponding figures. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 financial statements of the Company other than with respect to the adjustments, and accordingly, we do not express an opinion or any other form of assurance on the 2017 financial statements taken as whole.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS for SMEs, 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

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- 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.

Report on the Supplementary Information Required Under Revenue Regulations 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 required under Revenue Regulations 15-2010 in Note 17 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 the management of SMRC Automotives Technology Phil. Inc. 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 a whole.

SYCIP GORRES VELAYO & CO.

Maria Pilar B. Hernandez

Maria Pilar B. Hernandez
Partner
CPA Certificate No. 105007
SEC Accreditation No. 1558-AR-1 (Group A),
February 26, 2019, valid until February 25, 2022
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January 28, 2019, valid until January 27, 2022
PTR No. 7332559, January 3, 2019, Makati City

May 24, 2019

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(Formerly Reydel Automotive Phils. Inc., a Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(With Comparative Figures as at December 31, 2017)

	2018	2017 (As restated, Note 16)
ASSETS		
Current Assets		
Cash (Note 4)	**₱35,932,781**	₱17,573,990
Trade receivables (Note 5)	**5,210,011**	26,368,761
Inventories (Note 6)	**2,630,477**	–
Prepayments and other current assets (Note 7)	**15,744,202**	15,148,756
Total Current Assets	**59,517,471**	59,091,507
Noncurrent Assets		
Property and equipment (Notes 8 and 10)	**155,077,017**	136,965,853
Deferred tax assets (Note 14)	**1,018,486**	2,351,372
Other noncurrent assets	**10,116,652**	13,265,060
Total Noncurrent Assets	**166,212,155**	152,582,285
TOTAL ASSETS	**₱225,729,626**	₱211,673,792
LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)		
Current Liabilities		
Trade and other payables (Notes 9 and 13)	**₱22,323,174**	₱158,414,542
Intercompany payable (Note 13)	–	37,382,799
Total Current Liabilities	**22,323,174**	195,797,341
Noncurrent Liabilities		
Loans payable to a related party (Note 13)	**181,440,589**	–
Asset retirement obligation (Note 10)	**27,813,991**	–
Total Noncurrent Liabilities	**209,254,580**	–
Total Liabilities	**231,577,754**	195,797,341
Equity (Capital Deficiency)		
Capital stock - ₱100 par value		
Authorized, issued and outstanding - 500,000 shares	**50,000,000**	50,000,000
Deficit	**(55,848,128)**	(34,123,549)
Net Equity (Capital Deficiency)	**(5,848,128)**	15,876,451
TOTAL LIABILITIES AND EQUITY (CAPITAL DEFICIENCY)	**₱225,729,626**	₱211,673,792

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(Formerly Reydel Automotive Phils. Inc., a Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for the Year Ended December 31, 2017)

	2018	2017 (As restated, Note 16)
SALES	**₱68,513,376**	₱118,066,008
COST OF GOODS SOLD (Note 11)	**61,493,378**	111,106,197
GROSS INCOME	**7,019,998**	6,959,811
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**(12,837,664)**	(42,736,850)
INTEREST EXPENSE (Notes 10 and 13)	**(8,608,455)**	–
FOREIGN EXCHANGE LOSSES - Net	**(5,130,103)**	(941,534)
INTEREST INCOME ON CASH IN BANKS (Note 4)	**79,709**	88,849
OTHER INCOME (EXPENSES) – Net	**(899,236)**	172,573
LOSS BEFORE INCOME TAX	**(20,375,751)**	(36,457,151)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 14)		
Final tax	**15,942**	17,770
Deferred	**1,332,886**	(2,351,372)
	1,348,828	(2,333,602)
NET LOSS/ TOTAL COMPREHENSIVE LOSS	**(₱21,724,579)**	(₱34,123,549)

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.

(Formerly Reydel Automotive Phils. Inc., a Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENT OF CHANGES IN CAPITAL DEFICIENCY

FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for the Year Ended December 31, 2017)

	2018	2017 (As restated, Note 16)
CAPITAL STOCK - ₱100 par value		
Authorized, issued and outstanding- 500,000 shares	**₱50,000,000**	₱50,000,000
DEFICIT		
Balance at beginning of year	**(34,123,549)**	–
Total comprehensive loss	**(21,724,579)**	(34,123,549)
Balance at end of year	**(55,848,128)**	(34,123,549)
TOTAL EQUITY (CAPITAL DEFICIENCY)	**(₱5,848,128)**	₱15,876,451

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(Formerly Reydel Automotive Phils. Inc., a Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(With Comparative Figures for the Year Ended December 31, 2017)

	2018	2017 (As restated, Note 16)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱20,375,751)**	(₱36,457,151)
Adjustments for:		
Depreciation (Notes 8, 11 and 12)	**12,564,348**	3,258,209
Interest expense (Notes 10 and 13)	**8,608,455**	–
Net unrealized foreign exchange loss	**1,391,624**	587,649
Interest income on cash in banks (Note 4)	**(79,709)**	(88,849)
Working capital adjustments:		
Decrease (increase) in:		
Trade receivables	**21,158,750**	(26,368,761)
Inventories	**(2,630,477)**	–
Prepayments and other current assets	**(595,446)**	(15,148,756)
Increase (decrease) in trade and other payables	**(126,150,529)**	140,259,292
Net cash generated from (used in) operations	**(106,108,735)**	66,041,633
Interest received	**79,709**	88,849
Income tax paid	**(15,942)**	(17,770)
Net cash provided by (used in) operating activities	**(106,044,968)**	66,112,712
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of property and equipment (Note 8)	**(22,955,116)**	(122,068,812)
Decrease (increase) in other noncurrent assets	**3,148,408**	(13,265,060)
Net cash used in investing activities	**(19,806,708)**	(135,333,872)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Loans from a related party (Note 13)	**181,440,589**	–
Issuance of shares of stock	–	50,000,000
Advances from a related party (Note 13)	–	37,382,799
Payment of advances from a related party (Note 13)	**(37,382,799)**	–
Net cash provided by financing activities	**144,057,790**	87,382,799
NET INCREASE IN CASH	**18,206,114**	18,161,639
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**152,677**	(587,649)
CASH AT BEGINNING OF THE YEAR	**17,573,990**	–
CASH AT END OF THE YEAR (Note 4)	**₱35,932,781**	₱17,573,990

See accompanying Notes to Financial Statements.

1. General Information

Corporate Information

SMRC Automotives Technology Phil. Inc. (the Company), formerly Reydel Automotive Phils. Inc., was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on December 14, 2016 to engage in the business of developing, manufacturing, and assembly of car automotive interior parts such as but not limited to dashboard, panels, consoles, molding, and the like; and to export said products, and import machinery, components, parts, and materials.

On January 15, 2018, the Company became a wholly-owned subsidiary of SMRC Automotive Holdings Netherlands B.V. (the Parent Company, formerly Reydel Automotive B.V., and is organized under the laws of The Netherlands) upon acquisition of ownership of interest from CNRG, Inc. (the Company's former parent company, and is organized under the laws of the Philippines).

On September 19, 2018, the Board of Directors (BOD) approved the change of the Company's corporate name from "Reydel Automotive Phils. Inc." to "SMRC Automotives Technology Phil. Inc.". On January 10, 2019, the Company received the approval from SEC to carry and transact its business under its new corporate name.

The Company's registered office address is No. 2 American Road, Greenfield Automotive Park, Barangay Don Jose, Santa Rosa City, Laguna.

Change in Accounting Period

On November 9, 2018, the BOD approved the change in accounting period from calendar year ending December 31 to fiscal year ending March 31 to align with the parent company's reporting period. The Company's change in accounting period was approved by the SEC on February 23, 2019. Approval from the Bureau of Internal Returns is not yet obtained.

Status of Operations

The Company incurred net losses of ₱21,724,579 and ₱34,123,549 for the years ended December 31, 2018 and 2017, respectively, which resulted to a capital deficiency amounting to ₱5,848,128 as at December 31, 2018. The Company started operations only in 2018 and has incurred significant losses in 2018 and 2017 due to substantial expenses at the initial stage of operations. The Company is currently seeking new business opportunities and customers. The Parent Company has committed to provide operating and financial support to enable the Company to continue its operations.

Authorization for the Issuance of the Financial Statements

The financial statements of the Company were approved and authorized for issue by the BOD on May 24, 2019.

2. Basis of Preparation and Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance
The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

The financial statements of the Company have been prepared on a historical cost basis. The financial statements are presented in Philippine peso, which is the Company's functional currency.

Current versus Noncurrent Classification
The Company presents assets and liabilities in statements of financial position based on current/noncurrent classification.

An asset is current when it is:
- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

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

The Company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Financial Instruments
The Company accounts for its financial instruments as basic financial instruments in accordance with Section 11, "Basic Financial Instruments," under PFRS for SMEs.

The Company recognizes a financial asset or a financial liability in the statements of financial position when it becomes a party to the contractual provisions of the instrument. Financial assets or financial liabilities are recognized initially and measured at the transaction price (including transaction costs) unless the arrangement constitutes, in effect, a financing transaction.

A financing transaction may take place in connection with the sale of goods or services, for example, if payment is deferred beyond normal business terms or is financed at a rate of interest that is not a market rate. If the arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar instrument.

At each reporting period, the Company measures its financial instruments without any deduction for transaction costs, the Company may incur on sale or other disposal, at amortized cost using the effective interest method.

Debt instruments are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, unless the arrangement constitutes, in effect, a financing transaction.

If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statements of comprehensive income when the financial instruments are derecognized or impaired, as well as through the amortization process. Financial assets and liabilities are classified as current if maturity is within twelve months from the financial reporting date or the Company does not have an unconditional right to defer payment for at least twelve months from the reporting date. Otherwise, these are classified as noncurrent.

As at December 31, 2018 and 2017, the Company's basic financial instruments include cash, trade receivables, trade and other payables, intercompany payable and loans payable to a related party (see Notes 4, 5, 9 and 13).

<u>Cash</u>
Cash is composed of cash in banks and cash on hand. Cash in banks represent savings deposits in bank that earn interest at the respective bank deposit rates and are subject to insignificant risk of changes in value.

<u>Trade Receivables</u>
Trade receivables are recognized initially at the transaction price. These are subsequently measured at amortized cost using the effective interest method, less impairment losses. An allowance for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The related impairment loss is recognized immediately in statements of comprehensive income.

<u>Inventories</u>
Inventories are stated at the lower of cost and net realizable value which is selling price less costs to complete and sell (for finished goods and work in-process) and current replacement costs (for raw materials).

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Finished goods and work in-process	–	determined using the weighted average method; costs include direct materials and labor and a proportion of manufacturing overhead costs based on normal operating capacity but excluding borrowing costs
Raw materials	–	purchase cost using the first-in, first-out method

<u>Property and Equipment</u>
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The cost of property and equipment consists of its purchase price and any costs directly attributable to bringing the property and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of replacing a part of an item of property and equipment is included in the carrying amount of such an item when that cost incurred meets the recognition criteria. All other repair and maintenance costs are recognized in statements of comprehensive income as incurred.

Depreciation is computed using the straight-line method over the following estimated useful lives of the property and equipment:

Leasehold improvements	20 years or lease term whichever is shorter
Tools, machinery and equipment	5-15 years
Transportation equipment	5 years
Office furnitures and fixturers	5 years

The property and equipment's residual values, useful lives and depreciation method are reviewed at each financial year-end and adjusted prospectively, if appropriate.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (difference between the net disposal proceeds and carrying amount of the asset) is included in statements of comprehensive income in the year the asset is derecognized.

Impairment of Nonfinancial Assets (Property and Equipment)
At each reporting date, property and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is any indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in statements of comprehensive income.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognized immediately in statements of comprehensive income.

Trade and Other Payables
Trade and other payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method. Trade and other payables are derecognized in the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

Equity
Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deductions from proceeds, net of tax.

Deficit represents accumulated losses.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The Company assesses its revenue against specific criteria in order to determine if it is acting as principal or agent.

The Company has concluded that it is acting as principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized.

Sale of Goods. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of goods. Revenue is measured at fair value of the consideration received excluding discounts and returns.

Interest Income. Revenue is recognized as the interest accrues, taking into account the effective yield on the asset.

Costs and Expenses
Costs and expenses are decreases in economic benefits during the reporting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity participants. Cost of goods sold, selling, general and administrative expenses, interest and other expenses are recognized in the statements of comprehensive income in the period these are incurred.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Operating Lease Commitments - Company as a Lessee. Leases where there is no reasonable certainty that the Company will obtain ownership by the end of the lease term is accounted for as operating lease. Operating lease payments are recognized as an operating expense in the statements of comprehensive income in the period these are incurred. Lease payments are recognized as expense in accordance with the terms of the agreements since the payments to lessor were structured to increase in line with the expected general inflation.

Foreign Currency-denominated Transactions
Foreign currency-denominated transactions are initially recorded by the Company in Philippine peso by applying to the foreign currency amount the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rates at each financial reporting date. All exchange rate differences arising from settlement and retranslation of monetary items at rates different from those at which they were initially recorded during the year are recognized in the statements of comprehensive income in the year such difference arises. Nonmonetary items that are measured in terms of historical cost are translated using the exchange rate at the date of transaction.

Taxes
Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amounts expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the financial reporting date.

Deferred Tax. Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax assets are recognized for all temporary differences and carryforward benefits of net operating loss carryover (NOLCO) that are expected to reduce taxable income in the future. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable income, is more likely than not to be recovered.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable income. Any adjustment is recognized in the statements of comprehensive income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable income of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period. A valuation allowance is provided, on the basis of past years and future expectations, when it is not probable that taxable income will be available against which the future income tax deductions can be utilized.

Value-added Tax (VAT). Revenues, expenses and assets are recognized net of the amount of VAT, if applicable. When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statements of financial position. When input VAT exceeds output VAT, the excess is recognized as an asset in the statements of financial position to the extent of the recoverable amount.

The net amount of tax recoverable from the tax authority is included as part of “Prepayments and other current assets” account in the statements of financial position.

Creditable withholding tax. Creditable withholding tax is recognized at face value less any allowance for probable losses. An estimate for probable losses is made based on the amounts not recoverable from the tax authority or amounts not creditable against future income tax dues.

Deferred Input VAT. In accordance with the Revenue Regulations No. 16-2005, input VAT on purchases or imports of the Company of capital goods (depreciable assets for income tax purposes) with an aggregate acquisition cost (exclusive of input VAT) in each of the calendar months exceeding ₱1,000,000 are claimed as credit against output VAT over 60 months or the estimated useful lives of capital goods whichever is shorter and is classified under “Other noncurrent assets” account in the statements of financial position.

<u>Provisions</u>

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and, a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Asset Retirement Obligation. The asset retirement obligation arose from the Company’s obligation, under its contract with a lessor to decommission or dismantle its leasehold improvements and machineries at the end of the lease term. A corresponding asset is recognized as part of property and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the statements of comprehensive income as interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the property and equipment. The amount deducted from the cost of the property and equipment shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the property and equipment, the excess shall be recognized immediately in the statements of comprehensive income.

Contingencies
Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in notes to financial statements when an inflow of economic benefits are probable.

Events After the Reporting Period
Post year-end events that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS for SMEs requires the Company to make judgments, estimates and assumptions that affect the amounts reported in the financial statements. The estimates and assumptions are based on management's evaluation of relevant facts and circumstances as at reporting date. Actual results could differ from the estimates and assumptions used.

Judgment
In the process of applying the Company's accounting policies, management has made judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements and notes to the financial statements. The judgments are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements.

Determining 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 Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences the sales prices of goods and the costs of manufacturing goods.

Estimates and Assumptions
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, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond Company's control. Such changes are reflected in the assumptions when they occur.

Estimation of Net Realizable Value of Inventories. The Company writes down the cost of inventories whenever net realizable value of inventories becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes. The lower of cost and net realizable value of inventories is reviewed at each reporting date. Inventory items identified to be obsolete and unusable are also written-off and charged as expense in the statements of comprehensive income.

The total cost of raw materials fully provided with allowance for obsolescence amounted to ₱162,826 and nil as at December 31, 2018 and 2017, respectively. The carrying values of inventories amounted to ₱2,630,477 and nil as at December 31, 2018 and 2017, respectively (see Note 6).

Estimation of Useful Lives of Property and Equipment. The useful lives of property and equipment are estimated based on the period over which the property and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The estimated useful lives of property and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment. However, it is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in the factors mentioned above.

The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances.

There is no change in the estimated useful lives of property and equipment in 2018 and 2017. Property and equipment, net of accumulated depreciation, amounted to ₱155,077,017 and ₱136,965,853 as at December 31, 2018 and 2017, respectively (see Note 8).

Realizability of Deferred Tax Assets. The Company's assessment on the realizability of deferred tax assets is based on the forecasted taxable income of the following reporting periods. This forecast is based on the Company's past results and future expectations on revenue and expenses. The Company's deferred tax assets amounting to ₱10,659,937 and ₱10,242,250 as at December 31, 2018 and 2017, respectively, have been provided with valuation allowance because the management assessed that there may be no future taxable income available against which the deferred tax assets can be utilized. Carrying value of deferred tax assets amounted to ₱8,393,045 and ₱2,351,372 as at December 31, 2018 and 2017, respectively (see Note 14).

Estimation of Asset Retirement Obligation. The Company recognized provisions for its obligation to dismantle all its improvements at the end of its lease agreement with a lessor. The provision recognized represents the best estimate of the expenditures required to settle the present obligation at the current financial reporting date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using current market rate to take into account the timing of payments.

While the Company has made its best estimate in establishing the dismantlement provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Company's current estimates. Changes in dismantlement liability that result from a change in the current best estimate of cash flows required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset.

Asset retirement obligation amounted to ₱27,813,991 and nil as at December 31, 2018 and 2017, respectively (see Note 10).

4. Cash

	2018	2017 (As restated, see Note 16)
Cash in banks	**₱35,922,781**	₱17,564,175
Cash on hand	**10,000**	9,815
	₱35,932,781	₱17,573,990

Cash in banks earn interest at the prevailing bank deposit rates.

Interest income earned from cash in banks amounted to ₱79,709 and ₱88,849 in 2018 and 2017, respectively.

5. Trade Receivables

Trade receivables amounting to ₱5,210,011 and ₱26,368,761 (as restated, see Note 16) as at December 31, 2018 and 2017, respectively, are non-interest bearing and generally have 30 days' term.

6. Inventories

Inventories as at December 31, 2018 consists of the following:

At cost:	
Raw materials	₱1,568,716
Finished goods	731,817
Work-in-process	329,944
	₱2,630,477

The total cost of raw materials fully provided with allowance for obsolescence amounted to ₱162,826 and nil as at December 31, 2018 and 2017, respectively. No write-down in value of inventories were charged to operations in 2018 and 2017.

7. Prepayments and Other Current Assets

	2018	2017 (As restated, see Note 16)
Input VAT	**₱10,752,601**	₱11,733,227
Creditable withholding tax	**1,827,553**	946,313
Advances to supplier	**1,548,276**	2,467,855
Prepaid supplies	**1,546,688**	–
Advances to employees	**69,084**	1,361
	₱15,744,202	₱15,148,756

Advances to supplier amounting to ₱1,548,276 and ₱2,467,855 as at December 31, 2018 and 2017 are related to cash advances to an electric company for a 12-month billing in compliance to the required conditions to approve the service application. Prepaid supplies consist of spareparts and consumables that are normally issued within one year.

8. Property and Equipment

	Leasehold Improvements (see Note 10)	Transportation Equipment	Office Furnitures & Fixtures	Tools, Machineries and Equipment (see Note 10)	Total
Cost					
Additions in 2017 and balance as at December 31, 2017 (As restated, see Note 16)	₱34,549,982	₱1,178,571	₱1,689,492	₱102,806,017	₱140,224,062
Estimated present value of dismantlement cost (see Note 10)	12,937,823	–	–	12,937,823	25,875,646
Additions	249,616	–	616,826	3,933,424	4,799,866
Balance at December 31, 2018	₱47,737,421	₱1,178,571	₱2,306,318	₱119,677,264	₱170,899,574
Accumulated Depreciation					
Depreciation in 2017 and balance at December 31, 2017 (As restated, see Note 16)	₱593,113	₱58,929	₱101,997	₱2,504,170	₱3,258,209
Depreciation (see Notes 11 and 12)	2,749,318	235,714	436,390	9,142,926	12,564,348
Balance at December 31, 2018	₱3,342,431	₱294,643	₱538,387	₱11,647,096	₱15,822,557
Net Book Value					
December 31, 2018	**₱44,394,990**	**₱883,928**	**₱1,767,931**	**₱108,030,168**	**₱155,077,017**
December 31, 2017 (As restated, see Note 16	33,956,869	1,119,642	1,587,495	100,301,847	136,965,853

The carrying value of capitalized dismantlement cost, net of accumulated depreciation of ₱1,293,782 and nil, amounted to ₱24,581,864 and nil as at December 31, 2018 and 2017, respectively. The Company has no fully depreciated property and equipment and no idle assets as at December 31, 2018 and 2017.

Out of ₱140,224,062 acquisitions of property and equipment in 2017, ₱18,155,250 remain unpaid as at December 31, 2017, in which was eventually paid in 2018. There are no unpaid acquisitions of property and equipment as of December 31, 2018.

9. Trade and Other Payables

	2018	2017 (As restated, see Note 16)
Trade:		
Related parties (see Note 13)	**₱1,375,122**	₱111,705,576
Non-related parties	**7,639,416**	17,616,890
Nontrade payables to related party (see Note 13)	**3,429,436**	28,114,924
Accrued interest (see Note 13)	**6,670,110**	–
Accrued expenses	**2,860,902**	848,726
Statutory payables	**348,188**	128,426
	₱22,323,174	₱158,414,542

Trade payables are non-interest bearing and are normally on a 30 to 60 days' term. Accrued expenses and statutory payables are non-interest bearing and normally settled within 30 days. Accrued expenses consist of accruals of professional fees, freight charges and salaries. Terms and conditions of trade and nontrade payables to related parties and accrued interest are disclosed in Note 13

10. **Asset Retirement Obligation**

The Company has a contractual obligation to dismantle its machines and improvements on the leased building at the end of the lease term. In this regard, the Company established a provision in 2018 to recognize its estimated liability for the dismantlement of these machines and improvements.

The movement in this account for the year ended December 31, 2018 as follows:

Present value of estimated cost of dismantlement (see Note 8)	₱25,875,646
Accretion	1,938,345
Balance as at December 31, 2018	₱27,813,991

The actual cost of dismantlement could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required to complete all dismantlement activities.

11. **Cost of Goods Sold**

	2018	2017 (As restated, see Note 16)
Raw materials used	**₱26,893,352**	₱–
Tooling and supplies cost (see Note 13)	–	109,548,820
Direct labor	**596,069**	–
Manufacturing overhead:		
Depreciation (see Note 8)	**12,445,425**	–
Rent (see Note 15)	**5,689,455**	–
Salaries and employees' benefits	**5,675,455**	–
Communication, light and water	**4,166,124**	–
Contracted services	**1,997,647**	1,557,377
Repairs and maintenance	**1,643,270**	–
Supplies and indirect materials	**184,741**	–
Others	**3,263,601**	–
Movements in:		
Finished goods	**(731,817)**	–
Work in-process	**(329,944)**	–
	₱61,493,378	₱111,106,197

12. Selling, General and Administrative and Expenses

	2018	2017 (As restated, see Note 16)
Professional fees	**₱3,530,756**	₱656,440
Management and pre-operating costs (see Note 13)	**3,429,436**	31,030,049
Taxes and licenses	**1,912,248**	286,913
Freight and brokerage	**1,185,400**	–
Salaries and employees' benefits	**1,179,020**	1,610,831
Communication, light and water	**598,979**	1,687,260
Supplies	**392,564**	165,255
Rent (see Note 15)	**299,445**	3,003,950
Depreciation (see Note 8)	**118,923**	3,258,209
Travel and transportation	**–**	414,533
Others	**190,893**	623,410
	₱12,837,664	₱42,736,850

13. Related Party Transactions

Entities and individuals that directly or indirectly through one or more intermediaries, control, or are controlled by, or under the common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided for any related party payables.

The transactions of the Company with the related parties are described below:

Category	Terms	Conditions	Year	Amount/ Volume of Transactions	Trade and Other Payables (see Note 9)	Inter company Payable	Loans Payable to a Related Party
SMRC Automotive Holdings Netherlands B.V., *Parent Company* (i)							
(1) Loan agreements (a)	Peso and USD-denominated loans which bear interest at 2.25% to 6% annually, with an expected term of 4 to 5 years	Unsecured	**2018**	**₱181,440,589**	**₱–**	**₱–**	**₱181,440,589**
			2017	–	–	–	–
(2) Interest expense (a) (see Note 9)	Non-interest bearing, normally on a 30 days' term	Unsecured	**2018**	**6,670,110**	**6,670,110**	**–**	**–**
			2017	–	–	–	–

(Forward)

Category		Terms	Conditions	Year	Amount/ Volume of Transactions	Trade and Other Payables (see Note 9)	Inter company Payable	Loans Payable to a Related Party
SMRC Automotive Smart Interior Tech (Thailand) Ltd., ***subsidiary of SMRC Automotive Holdings Netherlands B.V.***								
(3)	Management and pre-operating costs (b) (see Notes 9 and 12)	Non-interest bearing, normally payable in 1 year	Unsecured	**2018**	**₱3,429,436**	**₱3,429,436**	**₱–**	**₱–**
				2017	–	–	–	–
(1)	Purchases (c)	Non-interest bearing, normally on a 45 days' term	Unsecured	**2018**	**7,135,795**	**1,375,122**	**–**	**–**
				2017	111,705,576	111,705,576	–	–
(2)	Management and pre-operating costs (b) (see Notes 9 and 12)	Non-interest bearing, normally payable in 1 year	Unsecured	**2018**	**–**	**–**	**–**	**–**
				2017	16,898,783	13,983,658	–	–
CNRG, Inc., ***Former Parent Company (ii)***								
(1)	Advances from a related party (d)	Non-interest bearing, payable on demand	Unsecured	**2018**	**–**	**–**	**–**	**–**
				2017	37,382,799	–	37,382,799	–
(2)	Management and pre-operating costs (b) (see Notes 9 and 12)	Non-interest bearing, normally payable in 1 year	Unsecured	**2018**	**–**	**–**	**–**	**–**
				2017	14,131,266	14,131,266	–	–
				2018		**₱11,474,668**	**₱–**	**₱181,440,589**
				2017		139,820,500	37,382,799	–

(i) Considered related party starting January 15, 2018.
(ii) Considered related party until January 14, 2018 only.

a. Loan agreements

The Company, as a borrower, has entered into the following loan agreements in with SMRC Automotive Holdings Netherlands B.V.:

Lender	Commencement Date	Terms	Principal Amount (In Original Currency)	Carrying Value as at December 31, 2018
SMRC Automotive Holdings Netherlands B.V.	January 15, 2018	Philippine peso-denominated loan, unsecured, interest bearing at 6% per annum and matured on December 31, 2018. On April 18, 2019, the loan agreement was renewed for another period of four (4) years	₱50,000,000	₱50,000,000
SMRC Automotive Holdings Netherlands B.V.	January 30, 2018	U.S. dollar-denominated loan, unsecured, interest bearing at Libor U.S. dollar 1 month plus 2.25% rate (as the date of initial drawdown). The principal amount is $400,000, of which $300,000 was already withdrawn. The loan matured on December 31, 2018. On April 18, 2019, the loan agreement was renewed. The loan is payable at full amount at the end of the loan period of five (5) years	$300,000	15,764,589
SMRC Automotive Holdings Netherlands B.V.	April 20, 2018	U.S. dollar-denominated loan, unsecured, interest bearing at Libor U.S. dollar 1 month plus (as the date of initial drawdown). On April 18, 2019, the loan agreement was renewed. The loan is payable at full amount at the end of the loan period of five (5) years	$2,200,000	115,676,000
				₱181,440,589

Interest expense from the above loans amounted to ₱6,670,110 and nil in 2018 and 2017, respectively.

b. Management and Pre-operating Costs

The Company has entered into agreements with SMRC Automotive Holdings Netherlands B.V. and CNRG, Inc. for the provision by the related parties pre-operation support services to the Company such as site development, building plan, sourcing of potential plant, main equipment and suppliers. An amount was paid by the Company in consideration for these services.

c. Purchases

Purchases from a related party at prices mutually agreed by both parties concerned and are normally on a cost-plus basis.

d. Advances from a Related Party

In 2017, CNRG, Inc. provided cash advances for initial operating activities of the Company. These cash advances were paid by the Company in 2018.

e. Compensation of Key Management Personnel

Salaries and wages of key management personnel amounted to ₱3,698,546 in 2018 and ₱1,610,831 in 2017. There are no long-term benefits given to key management personnel in 2018 and 2017.

14. **Income Taxes**

No provision for current income tax was recognized in 2018 and 2017.

The components of the Company's net deferred tax assets computed using the 30% tax rates are as follows:

	2018	2017 (As restated, see Note 16)
Deferred tax assets:		
NOLCO	**₱10,066,155**	₱12,417,527
Asset retirement obligation	**8,344,197**	–
Unrealized foreign exchange loss	**593,782**	176,295
Allowance for inventory obsolescence	**48,848**	–
	19,052,982	12,593,822
Less valuation allowance	**(10,659,937)**	(10,242,450)
	8,393,045	2,351,372
Deferred tax liability-		
Capitalized cost of dismantlement	**(7,374,559)**	–
	₱1,018,486	₱2,351,372

The Company's deferred tax assets amounting to ₱10,659,937 and ₱10,242,250 as at December 31, 2018 and 2017, respectively, have been provided with valuation allowance because the management assessed that there may be no future taxable income available against which the deferred tax assets can be utilized.

The reconciliation of benefit from income tax computed at the statutory income tax rate to provision for income tax (benefit from income tax) as shown in the statements of comprehensive income is summarized as follows:

	2018	2017 (As restated, see Note 16)
Benefit from income tax computed at statutory tax rate	**(₱6,112,725)**	(₱10,937,145)
Income tax effects of:		
Nondeductible expenses and others	**7,052,037**	(1,630,022)
Movement of deferred tax asset valuation allowance	**417,487**	10,242,450
Interest income subjected to final tax	**(23,913)**	(26,655)
Final tax on interest income	**15,942**	17,770
	₱1,348,828	(₱2,333,602)

The carryforward benefits of NOLCO in 2017 which can be claimed as deduction against future regular taxable income are as follows:

Incurred in 2017 and to be expired in 2020	₱41,391,757
Less utilized in 2018	(7,837,907)
	₱33,553,850

15. **Lease Commitment**

The Company entered into lease agreement covering the parcel of land and a building where the factory is located. The lease agreement shall have a term of (7) years from July 1, 2017 to June 30, 2024, subject to renewal as may agree upon by both parties. The monthly rental fee is subject to annual escalation. Total rental expense charged to operations amounted to ₱5,988,900 in 2018 and ₱3,003,950 in 2017 (see Notes 11 and 12).

Under lease agreement, the Company is committed to pay the following minimum annual rentals:

Within one year	₱3,039,366
After one year but not more than five years	13,230,546
More than five years	1,803,753
	₱18,073,665

16. **Effect of Prior Period Adjustments**

In 2018, the Company's management determined that the following restatements should be made to the financial statements as at and for the year ended December 31, 2017:

Statement of Financial Position

	Note	December 31, 2017 As previously presented	Effect of restatement	Reclassification	As restated
ASSETS					
Current Assets					
Cash	*a*	₱18,161,639	(₱587,649)	₱–	₱17,573,990
Trade receivables	*b, c*	2,575,032	26,262,945	(2,469,216)	26,368,761
Prepayments and other current assets	*b, c, h, j*	25,041,885	(2,813,887)	(7,079,242)	15,148,756
Total Current Assets		45,778,556	22,861,409	(9,548,458)	59,091,507
Noncurrent Assets					
Property and equipment	*d*	29,306,257	(3,072,738)	110,732,334	136,965,853
Deferred tax assets	*e*	12,417,527	(10,066,155)	–	2,351,372
Other noncurrent assets	*d, f, h*	129,357,861	(14,942,914)	(101,149,887)	13,265,060
Total Noncurrent Assets		171,081,645	(28,081,807)	9,582,447	152,582,285
TOTAL ASSETS		₱216,860,201	(₱5,220,398)	₱33,989	₱211,673,792
LIABILITIES AND EQUITY					
Current Liabilities					
Trade and other payables	*j*	₱158,380,553	₱–	₱33,989	₱158,414,542
Intercompany payable	*k*	–	–	37,382,799	37,382,799
Total Current Liabilities		158,380,553	–	37,416,788	195,797,341
Noncurrent Liability					
Advances from affiliated company	*k*	37,382,799	–	(37,382,799)	–
Total Liabilities		195,763,352	–	33,989	195,797,341
Equity					
Capital stock		50,000,000	–	–	50,000,000
Deficit		(28,903,151)	(5,220,398)	–	(34,123,549)
Total Equity		21,096,849	(5,220,398)	–	15,876,451
TOTAL LIABILITIES AND EQUITY		₱216,860,201	(₱5,220,398)	₱33,989	₱211,673,792

Statement of Comprehensive Income

	Note	December 31, 2017 As previously presented	Effect of restatement	Reclassification	As restated
Sales	*b, g*	₱94,718,348	₱23,449,058	(₱101,398)	₱118,066,008
Cost of goods sold	*d*	110,294,548	811,649	–	111,106,197
Gross income		(15,576,200)	22,637,409	(101,398)	6,959,811
Selling, general and administrative expenses	*d, f*	(25,532,847)	(17,204,003)	–	(42,736,850)
Foreign exchange losses – net	*a*	(353,885)	(587,649)	–	(941,534)
Interest income on cash in banks	*i*	71,079	–	17,770	88,849
Other income – net	*g*	71,175	–	101,398	172,573
Loss before income tax		(41,320,678)	4,845,757	17,770	(36,457,151)
Provision for (benefit from) income tax:					
Final tax	*i*	–	–	17,770	17,770
Benefit from deferred income tax	*e*	(12,417,527)	10,066,155	–	(2,351,372)
		(12,417,527)	10,066,155	17,770	(2,333,602)
NET LOSS/ TOTAL COMPREHENSIVE LOSS		(₱28,903,151)	(₱5,220,398)	₱–	(₱34,123,549)

Statement of Cash Flows

		December 31, 2017			
	Note	As previously presented	Effect of restatement	Reclassification	As restated
Net cash provided by (used in) operating activities		₱102,045,956	₱–	(₱138,986,820)	(₱36,940,864)
Net cash used in investing activities		(171,267,116)	–	138,986,820	(32,280,296)
Effect of exchange rate changes on cash	*a*	–	(587,649)	–	(587,649)

a. The Company recognized unrealized foreign exchange loss to restate foreign-currency denominated cash accounts as at December 31, 2017.

b. The Company recognized additional revenue and related output VAT for the sale of goods in 2017.

c. The Company reclassified cash advances to an electric company previously presented under “Trade receivables” to advances to suppliers (presented under “Prepayments and other current assets”).

d. The Company reclassified leasehold improvements, tools, machineries and equipment and transportation equipment previously presented under “Other noncurrent assets” to “Property and equipment” and “Cost of goods sold”. The Company also recognized additional depreciation expense presented under “Selling, general and administrative expenses” for those assets reclassified to “Property and equipment”.

e. The Company provided valuation allowance for the deferred tax assets on the carryforward benefits of unused NOLCO because the management assessed that there may be no future taxable income available against which the deferred tax assets can be utilized.

f. The Company recognized expenses in 2017 related to pre-operating costs. There were previously presented under "Other noncurrent assets" in the 2017 statement of financial position.

g. The Company reclassified the sale of sample goods to "Other Income – net" from "Sales" in the statement of comprehensive income.

h. The Company reclassified the input VAT related to the purchase of capital goods to “Other noncurrent assets”. This was previously presented under input VAT as part of “Prepayments and other current assets” in the statement of financial position.

i. The Company presented the interest income from cash in banks at gross of twenty percent (20%) final tax and the related final tax under “Provision for (benefit from) income tax” in the statement of comprehensive income.

j. The Company reclassified items with credit balances to “Trade and other payables” from “Prepayments and other current assets” in the statement of financial position.

k. The Company reclassified the “Advances from affiliated company” previously presented under noncurrent liabilities to “Intercompany payable” as part of current liabilities.

The foregoing adjustments did not have an impact on the statement of financial position as at January 1, 2017.

17. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2018:

a. Value-added Tax (VAT)

- Output VAT

  In 2018, the Company declared net sales and output in its VAT returns amounting to ₱91,419,495 and ₱10,970,339, respectively.

- Input VAT

Balance at January 1	₱14,547,114
Current year's domestic purchases for:	
Domestic goods	2,261,943
Domestic services	1,840,003
Importation of goods	948,950
Input tax deferred on capital goods	9,582,447
Input VAT applied against output VAT	(10,970,339)
Balance at December 31	₱18,210,118

b. Taxes and licenses

Included as cost of goods sold – others:	
License, permit and registration fees	₱177,676
Included as general and administrative expense:	
Documentary stamp tax	1,762,193
License, permit and registration fees	150,056
	2,089,925

c. Withholding taxes

	Tax on Compensation and Benefits	Expanded Withholding Taxes
Balance at beginning of year	₱40,766	₱62,324
Taxes withheld	1,076,582	992,139
Payments/remittances	(999,422)	(943,499)
Balance at end of year	₱117,926	₱110,964

d. Excise tax

The Company had no transactions subjected to excise tax in 2018.

e. Deficiency Tax Assessments and Tax Cases

The Company had no outstanding tax assessments with the Bureau of Internal Revenue (BIR) or tax cases in any courts or bodies outside the BIR as at December 31, 2018.