SMRC Automotives Technology Phil. Inc.

(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

SGV
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BOA/PRC Reg. No. 0001,
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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. (a wholly-owned subsidiary of SMRC Automotive Holdings Netherlands B.V., the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in capital deficiency and statements of cash flows for the years 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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs).

Basis for Opinion

We conducted our audits 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.

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.

- 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.

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Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were 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
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February 26, 2019, valid until February 25, 2022
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January 28, 2019, valid until January 27, 2022
PTR No. 8125244, January 7, 2020, Makati City

July 8, 2020

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.

(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash (Note 4)	**₱39,480,094**	₱35,932,781
Trade receivables (Note 5)	**12,177,461**	5,210,011
Inventories (Note 6)	**2,544,325**	2,630,477
Prepayments and other current assets (Note 7)	**19,729,850**	15,744,202
Total Current Assets	**73,931,730**	59,517,471
Noncurrent Assets		
Property and equipment (Notes 8 and 10)	**159,167,799**	155,077,017
Deferred tax assets (Note 14)	**2,420,985**	1,018,486
Other noncurrent assets	**2,659,134**	10,116,652
Total Noncurrent Assets	**164,247,918**	166,212,155
TOTAL ASSETS	**₱238,179,648**	₱225,729,626
LIABILITIES AND CAPITAL DEFICIENCY		
Current Liabilities		
Trade and other payables (Notes 9 and 13)	**₱24,433,969**	₱22,323,174
Noncurrent Liabilities		
Loans payable to a related party (Note 13)	**176,587,500**	181,440,589
Accrued rent (Note 15)	**493,509**	–
Asset retirement obligation (Note 10)	**47,857,525**	27,813,991
Total Noncurrent Liabilities	**224,938,534**	209,254,580
Total Liabilities	**249,372,503**	231,577,754
Capital Deficiency		
Capital stock	**50,000,000**	50,000,000
Deficit	**(61,192,855)**	(55,848,128)
Net Capital Deficiency	**(11,192,855)**	(5,848,128)
TOTAL LIABILITIES AND CAPITAL DEFICIENCY	**₱238,179,648**	₱225,729,626

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
SALES	**₱79,437,288**	₱68,513,376
COST OF GOODS SOLD (Note 11)	**70,637,909**	61,493,378
GROSS INCOME	**8,799,379**	7,019,998
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**(12,320,450)**	(12,837,664)
INTEREST EXPENSE (Notes 10 and 13)	**(10,841,687)**	(8,608,455)
FOREIGN EXCHANGE GAIN (LOSS) - Net	**5,204,279**	(5,130,103)
INTEREST INCOME ON CASH IN BANKS (Note 4)	**18,345**	79,709
OTHER INCOME (EXPENSES) – Net	**2,396,577**	(899,236)
LOSS BEFORE INCOME TAX	**(6,743,557)**	(20,375,751)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 14)		
Final tax	**3,669**	15,942
Deferred	**(1,402,499)**	1,332,886
	(1,398,830)	1,348,828
NET LOSS/ TOTAL COMPREHENSIVE LOSS	**(₱5,344,727)**	(₱21,724,579)

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENTS OF CHANGES IN CAPITAL DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

	2019	2018
CAPITAL STOCK - ₱100 par value		
Authorized, issued and outstanding - 500,000 shares	**₱50,000,000**	₱50,000,000
DEFICIT		
Balance at beginning of year	**(55,848,128)**	(34,123,549)
Total comprehensive loss	**(5,344,727)**	(21,724,579)
Balance at end of year	**(61,192,855)**	(55,848,128)
NET CAPITAL DEFICIENCY	**(11,192,855)**	(₱5,848,128)

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱6,743,557)**	(₱20,375,751)
Adjustments for:		
Depreciation (Notes 8, 11 and 12)	**13,842,886**	12,564,348
Interest expense (Notes 10 and 13)	**10,841,687**	8,608,455
Net unrealized foreign exchange loss (gain)	**(5,098,904)**	1,391,624
Interest income on cash in banks (Note 4)	**(18,345)**	(79,709)
Movement in accrued rent	**493,509**	–
Working capital adjustments:		
Decrease (increase) in:		
Trade receivables	**(6,967,450)**	21,158,750
Inventories	**86,152**	(2,630,477)
Prepayments and other current assets	**(3,253,373)**	285,794
Decrease in trade and other payables	**(6,132,790)**	(126,150,529)
Net cash used in operations	**(2,950,185)**	(105,227,495)
Income tax paid (including creditable withholding taxes)	**(735,944)**	(897,182)
Interest received	**18,345**	79,709
Net cash used in operating activities	**(3,667,784)**	(106,044,968)
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in other noncurrent assets	**7,457,518**	3,148,408
Acquisitions of property and equipment (Note 8)	**(237,977)**	(22,955,116)
Net cash used in investing activities	**7,219,541**	(19,806,708)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans from a related party (Note 13)	–	181,440,589
Payment of advances from a related party	–	(37,382,799)
Net cash provided by financing activities	–	144,057,790
NET INCREASE IN CASH	**3,551,757**	18,206,114
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(4,444)**	152,677
CASH AT BEGINNING OF THE YEAR	**35,932,781**	17,573,990
CASH AT END OF THE YEAR (Note 4)	**₱39,480,094**	₱35,932,781

See accompanying Notes to Financial Statements.

SMRC AUTOMOTIVES TECHNOLOGY PHIL. INC.
(A Wholly-owned Subsidiary of SMRC Automotive Holdings Netherlands B.V.)

NOTES TO THE 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.

The Company started its commercial operations in February 2018.

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 with effectivity date of April 1, 2020.

Status of Operations

The Company incurred net losses of ₱5,344,727 and ₱21,724,579 in 2019 and 2018, respectively, which resulted to a capital deficiency amounting to ₱11,192,855 and ₱5,848,128 as at December 31, 2019 and 2018, respectively. The Company started operations only in 2018 and has incurred significant losses 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 July 8, 2020.

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, 2019 and 2018, the Company's basic financial instruments include cash, trade receivables, trade and other payables 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 furniture and fixtures	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 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 income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credits from net operating loss carryover (NOLCO), to the extent that it is probable that future taxable income will be available against which the deductible temporary differences and carryforward benefits of NOLCO can be utilized.

Deferred income tax liabilities are measured at the tax rates that are expected to apply to the periods when the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the financial reporting date.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax assets 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 sufficient taxable income will allow the deferred tax assets to be recovered.

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.

Provisions

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 as at December 31, 2019 and 2018. The carrying values of inventories amounted to ₱2,544,325 and ₱2,630,477 as at December 31, 2019 and 2018, 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 2019 and 2018. Property and equipment, net of accumulated depreciation, amounted to ₱159,167,799 and ₱155,077,017 as at December 31, 2019 and 2018, respectively (see Note 8).

Realizability of Deferred Tax Assets. The Company's assessment on the recognition of deferred tax assets on all deductible temporary differences and carryforward benefits of unused tax credits from NOLCO is based on the forecasted taxable income of the following years. This forecast is based on the Company's past results and future expectations on revenue and expenses. Management has assessed that sufficient future taxable income may not be available against which the deferred tax asset can be utilized.

Deferred tax assets recognized in the Company's statements of financial position amounted to ₱14,406,106 and ₱8,393,045 as at December 31, 2019 and 2018, respectively. Unrecognized deferred tax assets amounted to ₱12,511,210 and ₱10,659,937 as at December 31, 2019 and 2018, 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 ₱47,857,525 and ₱27,813,991 as at December 31, 2019 and 2018, respectively (see Note 10).

4. **Cash**

	2019	2018
Cash in banks	**₱39,470,094**	₱35,922,781
Cash on hand	**10,000**	10,000
	₱39,480,094	₱35,932,781

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

Interest income earned from cash in banks amounted to ₱18,345 and ₱79,709 in 2019 and 2018, respectively.

5. **Trade Receivables**

Trade receivables amounting to ₱12,177,461 and ₱5,210,011 as at December 31, 2019 and 2018, respectively, are non-interest bearing and generally have 30 days' term.

6. **Inventories**

	2019	2018
At cost:		
Raw materials	**₱1,650,619**	₱1,568,716
Finished goods	**581,272**	731,817
Work-in-process	**312,434**	329,944
	₱2,544,325	₱2,630,477

The total cost of raw materials fully provided with allowance for obsolescence amounted to ₱162,826 as at December 31, 2019 and 2018. No write-down in value of inventories was charged to operations in 2019 and 2018.

7. **Prepayments and Other Current Assets**

	2019	2018
Input VAT – net	**₱14,064,590**	₱10,752,601
Creditable withholding tax	**2,559,828**	1,827,553
Advances to supplier	**1,522,114**	1,548,276
Prepaid supplies	**1,564,095**	1,546,688
Advances to employees	**19,223**	69,084
	₱19,729,850	₱15,744,202

Advances to supplier are 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 spare parts 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					
At December 31, 2017	₱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
At December 31, 2018	47,737,422	1,178,571	2,306,318	119,677,264	170,899,575
Increase in cost of dismantlement due to change in financial assumptions (see Note 10)	8,847,845	–	–	8,847,845	17,695,690
Additions	–	–	4,554	233,423	237,977
Balance at December 31, 2019	₱56,585,267	₱1,178,571	₱2,310,872	₱128,758,532	₱188,833,242
Accumulated Depreciation					
At December 31, 2017	₱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
At December 31, 2018	3,342,431	294,643	538,387	11,647,096	15,822,557
Depreciation (see Notes 11 and 12)	3,268,607	235,714	461,644	9,876,921	13,842,886
Balance at December 31, 2019	₱6,611,038	₱530,357	₱1,000,031	₱21,524,017	₱29,665,443
Net Book Value					
December 31, 2019	**₱49,974,229**	**₱648,214**	**₱1,310,841**	**₱107,234,515**	**₱159,167,799**
December 31, 2018	44,394,990	883,928	1,767,931	108,030,168	155,077,017

The carrying value of capitalized dismantlement cost, net of accumulated depreciation of ₱3,620,935 and ₱1,293,782, amounted to ₱39,950,401 and ₱24,581,864 as at December 31, 2019 and 2018, respectively. The Company has no fully depreciated property and equipment and no idle assets as at December 31, 2019 and 2018.

9. Trade and Other Payables

	2019	2018
Trade:		
Related party (see Note 13)	**₱2,228,370**	₱1,375,122
Non-related parties	**4,002,684**	7,639,416
Nontrade payables to a related party (see Note 13)	**592,863**	3,429,436
Accrued interest (see Note 13)	**14,867,847**	6,670,110
Accrued expenses	**2,273,371**	2,860,902
Statutory payables	**468,834**	348,188
	₱24,433,969	₱22,323,174

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 a related party 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 in 2019 and 2018 are as follows:

	2019	2018
Beginning balance	**₱27,813,991**	₱–
Increase due to change in financial assumptions (see Note 8)	**17,695,690**	–
Accretion	**2,347,844**	1,938,345
Present value of estimated cost of dismantlement (see Note 8)	–	25,875,646
Ending balance	**₱47,857,525**	₱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

	2019	2018
Raw materials used	**₱30,539,588**	₱26,893,352
Direct labor	**1,921,524**	596,069
Manufacturing overhead:		
Depreciation (see Note 8)	**13,784,707**	12,445,425
Salaries and employees' benefits	**7,653,782**	5,675,455
Rent (see Note 15)	**6,250,327**	5,689,455
Communication, light and water	**4,273,068**	4,166,124
Insurance	**1,211,808**	208,678
Repairs and maintenance	**895,063**	1,643,270
Supplies and indirect materials	**591,483**	184,741
Contracted services	–	1,997,647
Others	**3,348,504**	3,045,923
Movements in:		
Finished goods	**150,545**	(731,817)
Work in-process	**17,510**	(329,944)
	₱70,637,909	₱61,493,378

12. Selling, General and Administrative Expenses

	2019	2018
Marketing and selling (see Note 13)	**₱3,220,226**	₱–
Research and development costs (see Note 13)	**1,941,799**	3,429,436
Freight and brokerage	**1,728,500**	1,185,400
Salaries and employees' benefits	**1,691,836**	1,179,020
Professional fees	**1,402,243**	3,530,756
Information technology (IT) services (see Note 13)	**722,876**	–
Communication, light and water	**511,704**	598,979
Rent (see Note 15)	**330,844**	299,445

(Forward)

	2019	2018
Taxes and licenses	**89,576**	1,912,248
Depreciation (see Note 8)	**58,179**	118,923
Supplies	**22,582**	392,564
Others	**600,085**	190,893
	₱12,320,450	₱12,837,664

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 settled in cash throughout the financial year.

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)	Loans Payable to a Related Party
SMRC Automotive Holdings Netherlands B.V., *Parent Company* *(i)*						
	Peso and USD-denominated loans which bear interest at 2.25% to 6% annually, with an expected term of 4 to 5 years		**2019**	**₱–**	**₱–**	**₱176,587,500**
(1) Loan agreements (a)		Unsecured	2018	181,440,589	–	181,440,589
(2) Interest expense (a) (see Note 9)	Non-interest bearing, normally on a 30 days' term		**2019**	**8,493,843**	**14,867,847**	**–**
		Unsecured	2018	6,670,110	6,670,110	–
(3) Services provided by the Parent Company (b) (see Note 12)	Non-interest bearing, normally on a 30 days' term	Unsecured	**2019**	**5,884,901**	**592,863**	**–**
			2018	3,429,436	3,429,436	–
SMRC Automotive Smart Interior Tech (Thailand) Ltd., *subsidiary of SMRC Automotive Holdings Netherlands B.V.*						
	Non-interest bearing, normally on a 45 days' term		**2019**	**6,184,918**	**2,228,370**	**–**
(1) Purchases (c)		Unsecured	2018	7,135,795	1,375,122	–
			2019		**₱17,689,080**	**₱176,587,500**
			2018		11,474,668	181,440,589

(i) Considered related party starting January 15, 2018.

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	
				2019	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**	₱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 in lump at the end of the loan period of five (5) years	$300,000	**15,190,500**	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 in lump sum at the end of the loan period of five (5) years	$2,200,000	**111,397,000**	115,676,000
				₱176,587,500	₱181,440,589

Interest expense from the above loans amounted to ₱8,493,843 and ₱6,670,110 in 2019 and 2018, respectively.

b. Services provided by the Parent Company

In 2019 and 2018, the Company entered into agreements with the Parent Company. Under the terms of the agreement, the Parent Company provides services, such as research and development, marketing and selling and IT services, to the Company. Under the term of the contract, the parent company will provide services for 3 years with successive renewal periods of 1 year unless the party gives other parties a notice to terminate the agreement. In 2019 and 2018, the Company paid service fees in consideration for these services.

c. Purchases

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

d. Compensation of Key Management Personnel

Salaries and wages of key management personnel amounted to ₱5,175,807 in 2019 and ₱3,698,546 in 2018. There are no long-term benefits given to key management personnel in 2019 and 2018.

14. **Income Taxes**

No provision for current income tax was recognized in 2019 and 2018.

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

	2019	2018
Deferred tax assets:		
Asset retirement obligation	**₱14,357,258**	₱8,344,197
Allowance for inventory obsolescence	**48,848**	48,848
	14,406,106	8,393,045
Deferred tax liability-		
Capitalized cost of dismantlement	**(11,985,121)**	(7,374,559)
	₱2,420,985	₱1,018,486

The Company's deferred tax assets on the carry forward benefits of NOLCO and temporary difference on unrealized foreign exchange loss amounting to ₱12,511,210 and ₱10,659,937 as at December 31, 2019 and 2018, respectively, were not recognized as the Company's management believes that it is not probable that taxable income will be available against which these deferred tax assets can be applied.

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:

	2019	2018
Benefit from income tax computed at statutory tax rate	**(₱2,023,067)**	(₱6,112,725)
Income tax effects of:		
Nondeductible expenses and others	**2,028,571**	7,052,037
Change in unrecognized deferred tax assets	**(1,402,499)**	417,487
Interest income subjected to final tax	**(5,504)**	(23,913)
Final tax on interest income	**3,669**	15,942
	(₱1,398,830)	₱1,348,828

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

Date Incurred	Expiration	Amount
December 31, 2017	December 31, 2020	₱41,391,757
December 31, 2019	December 31, 2022	8,150,183
		₱49,541,940

Incurred in 2017 will expire 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. Outstanding liability arising from difference between the actual lease payments and rent expense using the straight-line method of amortization amounted to ₱493,509 as at December 31, 2019. Total rental expense charged to operations amounted to ₱6,581,171 in 2019 and ₱5,988,900 in 2018 (see Notes 11 and 12).

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

Within one year	₱6,291,095
After one year but not more than five years	23,807,505
	₱30,098,600

16. **COVID - 19 Outbreak**

In the first quarter of 2020, the Philippine government has implemented measures in a move to contain the COVID-19 outbreak.

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 virus as a global pandemic. On March 13, 2020, the Office of the President of the Philippines issued a directive imposing stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout Luzon until April 12, 2020, unless earlier lifted or extended. The Office of the President of the Philippines issued a memorandum extending the ECQ until April 30, 2020 which was further extended to May 15, 2020. On May 14, 2020, the government relaxed the implementation of ECQ and has placed certain areas under either the Modified ECQ or general community quarantine (GCQ) until May 31, 2020. The government further eased the implementation of community quarantine and placed most of areas in the Philippines under GCQ or modified GCQ until July 15, 2020. These measures are expected to result to disruptions to businesses and economic activities.

The Company considers the measure taken by the government as a non-adjusting subsequent event, which does not impact its financial position and performance as of and for the year ended December 31, 2019. However, it could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company cannot determine at this time the impact to its financial position, performance and cash flows. The Company will continue to monitor the situation.

17. Supplementary Information Required Under Revenue Regulations 15-2010

The Company reported and/or paid the following types of taxes in 2019:

a. Value-added Tax (VAT)

- Output VAT

  In 2019, the Company declared net sales and output VAT in its VAT returns amounting to ₱79,437,288 and ₱9,532,475, respectively.

- Input VAT

Balance at January 1	₱10,752,601
Current year's domestic purchases for:	
Domestic goods	2,776,034
Domestic services	1,848,827
Importation of goods	762,085
Input tax deferred on capital goods	7,457,517
Input VAT applied against output VAT	(9,532,475)
Balance at December 31	₱14,064,590

b. Taxes and licenses

Included as cost of goods sold – others –	
License, permit and registration fees	₱533,059
Included as general and administrative expense:	
Documentary stamp tax	39,664
License, permit and registration fees	49,912
	₱622,635

c. Withholding taxes

	Tax on Compensation and Benefits	Expanded Withholding Taxes
Balance at beginning of year	₱117,926	₱110,964
Taxes withheld	1,398,881	761,214
Payments/remittances	(1,358,701)	(812,735)
Balance at end of year	₱158,107	₱59,443

d. Excise tax

The Company had no transactions subjected to excise tax in 2019.

e. Deficiency Tax Assessments and Tax Cases

The Company has 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, 2019.