

**COMPILATION OF MATERIAL FINDINGS ON 2019 AFS
REVIEWED BY THE COMMISSION**

COMPONENTS OF FINANCIAL STATEMENTS	Brief Description of Non-Compliance
Auditor's Report	<ol style="list-style-type: none"> 1. There is no emphasis of matter paragraph in the auditor's report despite the company incurred capital deficiency based on the Statement of Financial Position. (Revised SRC Rule 68). 2. The Reconciliation of Retained Earnings Available for Dividend Declaration was not covered by a legal matter paragraph in the Auditor's Report or a separate report of auditor (Financial Reporting Bulletin No. 1 and SRC Rule 68, as amended). 3. The other matter paragraph failed to disclose the date of the report of the prior period AFS audited by a predecessor auditor (PSA 710). 4. The "Material Uncertainty Related to Going Concern" paragraph of the Auditor's report did not include a statement that the auditor's opinion is not modified in respect of the material uncertainty (PSA 570 (rev)). 5. The Financial Statements were prepared under an incorrect financial reporting framework, (SRC Rule 68 (as amended) / Revised SRC Rule 68). 6. The company failed to report its financial statements in accordance with PFRS for SMEs as amended in 2015 (PSA 700 and SRC Rule 68, as amended) / Revised SRC Rule 68).
Statement of Financial Position	<p>The amount of total assets does not agree with total liabilities and equity (PAS 1).</p>
Statement of Cash Flow	<ol style="list-style-type: none"> 1. The Company presented its cash flows from financing and investing activities using the indirect method of cash flows instead of direct method (PAS 7/ Section 7 of PFRS for SMEs /Section 3 of PFRS for SEs). 2. The cash flows arising from availment and payment of loans should have been classified under financing activities. (Section 7 of PFRS for SMEs). 3. The Company classified "loans payable (current portion)" among its operating cash flows instead of financing cash flows (PAS 7/ Section 7 of PFRS for SMEs /Section 3 of PFRS for SEs). 4. Amounts reported in the Statement of Cash Flows were inconsistent with the amounts reported in the Notes to Financial Statements or the rest of the Financial Statements (PAS 1 and 7).

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<p align="center">Supplemental Schedules required under SRC Rule 68, as amended</p>	<ol style="list-style-type: none"> 1. The Supplemental Written Statement of Independent Auditor failed to provide the number of stockholders owning 100 or more shares as of December 31, 2019 (SRC Rule 68, as amended). 2. There is no Audited Reconciliation Schedule of Retained Earnings for Dividend Declaration (SRC Rule 68, as amended, Financial Reporting Bulletin No. 01 and 14). 3. The schedule showing the following information is not attached to the CUIFS as of September 30, 2019: <ol style="list-style-type: none"> (i.) Gross and net proceeds as disclosed in the final prospectus; (ii.) Actual gross and net proceeds; (iii.) Each expenditure item where the proceeds was used; and (iv.) Balance of the proceeds as of end of reporting period. The same deficiency has been noted in the CUIFS as of June 30, 2019 and still pending compliance up to this date. <p>It is recommended that the required information be provided in the subsequent submission of the Company's financial statements</p>

Notes to Financial Statements	Brief Description of Non-Compliance
<p>Corporate Information</p>	<ol style="list-style-type: none"> 1. The company failed to provide a discussion of the reason for its capital deficiency and concrete plan to address the same (SRC Rule 68, as amended & PAS 1). 2. A note disclosure of the AFS indicates that the Company has an Investment in Subsidiary. Therefore, the company should have prepared consolidated financial statements or provided the following disclosure: <ol style="list-style-type: none"> (a) The fact the financial statements are separate financial statements; (b) The exemption from consolidation has been used; and (c) The name and country of corporation or residence of the entity whose consolidated financial statements that comply with PFRS have been produced for public use; (d) The address where those consolidated financial statements are obtainable (PAS 27). 3. The notes to the financial statements failed to disclose the following information in connection with its subsidiaries: <ol style="list-style-type: none"> (a) the composition of the group; and (b) the interest that non-controlling interests have in the group's activities and cash flows (paragraph 12); and (c) the nature and extent of significant restrictions on its ability to access or use assets, and settle liabilities, of the group (paragraph 13).

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Basis of Preparation of FS	<ol style="list-style-type: none"> 1. The company incorrectly adopted PFRS. Considering the asset and liability size of the company, it should have adopted PFRS for SMEs. (Sec. 8 of PFRS for SMEs & SRC Rule 68, as amended). 2. The Auditor's Report states that the FY 2019 AFS was prepared "in accordance with Philippine Financial Reporting Standards (PFRS)". Considering that the total assets and liabilities of the FY 2019 and 2018 did not breached the threshold criteria, the accounting framework adopted by the Company should be PFRS for SMEs (Revised SRC Rule 68).
Cash and Cash Equivalents	<ol style="list-style-type: none"> 1. Incomplete accounting policy on "Cash", i.e., initial and subsequent measurement (PFRS 9/Section 11 of PFRS for SMEs/ Section 6 of PFRS for SEs). 2. The accounting policy of Cash and Cash equivalents indicates that these are carried in the statements of financial position at face amount or at nominal amount. This is not in accordance with PFRS 9 which requires to be measured at amortized cost.
Receivables	<ol style="list-style-type: none"> 1. Incomplete accounting policy on "Trade and other receivables", i.e., initial recognition, subsequent measurement and derecognition policy (PFRS 9/ Section 11 of PFRS for SMEs /Section 6 of PFRS for SEs). 2. Note on accounting policy states that "Trade Receivables" are "subsequently measured at amortized cost using the effective interest method". This is not in accordance with Section 11.14.a of PFRS for SMEs which prescribed that "debt instruments that are classified as current assets or current liabilities shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received". 3. Incomplete disclosure on "Loans Receivable", i.e., terms i.e., interest rates; and write-off policy, including the indicators that there is no reasonable expectation of recovery and information about the policy for financial assets that are written-off but are still subject to enforcement activity (PFRS 7). 4. Considering the nature of the Company, it is highly unlikely that there was no allowance for uncollectible accounts recognized relating to its "Loans and receivables". Paragraph 5.5.17 states that an entity shall measure expected credit losses of a financial instrument in a way that reflects: a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; b) the time value of money; and c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions (PFRS 9).

Notes to Financial Statements	Brief Description of Non-Compliance
Financial Instruments	<ol style="list-style-type: none"> 1. The company continues to classify its financial instruments under the categories provided by PAS 39 which has already been superseded (PFRS 9). 2. The Company's accounting policies on classification and measurement of financial assets and liabilities, and impairment of financial assets are not in accordance with PFRS 9. The same deficiency has been noted in the CUIFS as of June 30, 2019 which the Company undertook to address in its subsequent submission of CUIFS.
Inventories	<ol style="list-style-type: none"> 1. There is no accounting policy on "Inventory" (PAS 2/ Section 13 of PFRS for SMEs). 2. Incomplete disclosure on "Inventory", i.e., the carrying amount of inventories carried at fair value less costs to sell, the cost formula used, the carrying amount in classifications of inventory appropriate to the entity, and the amount of inventories recognized as an expense during the period (PAS 2/ Section 13 of PFRS for SMEs). 3. There is a failure to disclose the amount of the inventories at lower of cost and net realizable value (PAS 2).
Financial Assets/Investments	<ol style="list-style-type: none"> 1. Note on accounting policy of "Trade Receivables and Advances to Related Parties" states that "an allowance for impairment of receivables are established when there is an objective evidence that the Company will not be able to collect all amounts due..." which seems to be in accordance with PAS 39. This is inconsistent with the same note under "Impairment" which is in accordance with PFRS 9 ECL. 2. There is no accounting policy on "Investment in Shares of Stock" (PAS 1).
Investments in Subsidiaries	<ol style="list-style-type: none"> 1. The following disclosures as required under PAS 27 were not disclosed in the Notes to financial statements: <ol style="list-style-type: none"> (a) Nature of the relationship between parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power; (b) The end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and as of a date or for a period that is different from that of the parent's financial statements, and the reason for using a different date or period; (c) The nature and extent of any significant restrictions (i.e., resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances; (d) A schedule that shows the effect of any changes in a parent's ownership interest in a subsidiary that do not result in a loss of control on the equity attributable to owners of the parents;

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Investment in Associates	<p>Incomplete disclosures on Investment in Associates, i.e., the nature of the entity's relationship with associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities), the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the associate, and the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable); financial information particularly on its assets (PFRS 12).</p>
Investment Property	<ol style="list-style-type: none"> 1. Incomplete accounting policy on "Investment Property", i.e., initial recognition and subsequent measurement (PAS 40). 2. Incomplete disclosure on "Investment Property", i.e., the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed, direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period, the useful lives or the depreciation rates used, the depreciation methods used, and a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the additions, disposals and depreciation (PAS 40). 3. Note indicates that the Company's Investment Properties are subsequently measured at cost. This is not in accordance with the required measurement using "cost model" which requires that the same should be carried at cost less any accumulated impairment losses (PAS 40 and 16).
Property and Equipment	<ol style="list-style-type: none"> 1. Incomplete accounting policy on "Properties and Equipment", i.e., initial recognition and subsequent measurement (PAS 16/ Section 12 of PFRS for SEs/ Section 17 of PFRS for SMEs). 2. Incomplete disclosure on "Property and equipment", i.e., the useful lives or the depreciation rates used; a reconciliation of the carrying amount at the beginning and end of the period for 2017; amounts of restrictions on title, and carrying amounts of property, plant and equipment pledged as security for liabilities (PAS 1/PAS 16/Section 12 of PFRS for SEs/ Section 17 of PFRS for SMEs). 3. Notes indicate that Building and Building improvements are carried at revalued amount. There is a failure to provide the following disclosure requirement: <ol style="list-style-type: none"> (a) Methods and significant assumptions applied in estimating the items of fair values;

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	<p>(b) The extent to which the fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;</p> <p>(c) The revaluation surplus, indicating the change for the period and any restriction on the distribution of the balance to shareholders (PAS 16).</p> <p>4. There is no movement analysis on its Property and Equipment at appraised value (PAS 16).</p>
Intangible Assets	<ol style="list-style-type: none"> 1. Incomplete disclosure on "Intangible Asset", i.e., a reconciliation of the carrying amount at the beginning and end of the reporting period showing separately: (i) additions; (ii) disposals; (iii) acquisitions through business combinations; (iv) amortization; (v) impairment losses; and (vi) other changes (Section 18 of PFRS for SMEs). 2. Incomplete accounting policy on "Intangible property", i.e., initial recognition and subsequent measurement (Section 18 of PFRS for SMEs). 3. The Company recorded pre-operating expenses among its non-current assets and amortized such. This is inconsistent with PAS 38 which requires pre-operating expenses to be expensed outright (PAS 38). 4. There is no disclosure on the basis for determining that certain intangible asset has an indefinite life (PAS 38, par. 118).
Liabilities	<ol style="list-style-type: none"> 1. A note disclosure states that trade and other receivables "are recognized initially at the transaction price...". However, another note disclosure states that "financial liabilities are initially measured at fair value...". Please note that Section 11.2 of PFRS for SMEs states that "an entity shall choose to apply either: (a) the requirements of both Sections 11 and 12 in full; or (b) the recognition and measurement requirements of PAS 39 Financial Instruments: Recognition and Measurement¹ and the disclosure requirements of Sections 11 and 12 to account for all of its financial instruments". 2. Incomplete disclosure on "Loans Payable", i.e., maturity date, interest rates, terms and conditions, covenants and warranties (PFRS 7/ Section 6 of PFRS for SEs/ Section 11 of PFRS for SMEs). 3. Incomplete disclosure on "Deposits for future shares subscription", i.e., the nature of consideration received; the date of the presentation for filing to the Commission; the date of the Commission's approval; information about the increase in the authorized capital stock (i.e., old and new authorized capital stock, number of shares, par value per share.) (FRB 6).

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	<ol style="list-style-type: none"> 4. Incomplete accounting policy on "Trade and other payables", i.e., initial recognition; subsequent measurement and derecognition policy (PFRS 9/ Section 11 of PFRS for SMEs /Section 6 of PFRS for SEs). 5. A note disclosure showed that "Loans Payable" has no fixed repayment term. Considering the foregoing, such should be recognized among current liabilities since it can be implied that it is payable on demand (Sections 4, 11 and 33 of PFRS for SMEs).
Equity	<p>Incomplete disclosure on "Capital Stock", i.e., the number of shares authorized, the number of shares issued and fully-paid, and issued but not fully paid and a reconciliation of the number of shares outstanding at the beginning and at the end of the period (PAS 1).</p>
Revenue	<ol style="list-style-type: none"> 1. Based on a note disclosure, it seems that the Company still used PAS 18 on its accounting policy for "Revenue". This is evidenced by revenue being measured at fair value instead of the transaction price and revenue on contracts being recognized using the percentage of completion method instead of either the output or the input method (PFRS 15). 2. Incomplete disclosure on "Revenue", i.e., the qualitative and quantitative information on its contracts with customers; the significant judgements, and changes in the judgements, made in applying this Standard to those contracts; and any assets recognized from the costs to obtain or fulfill a contract with a customer (disaggregation of the revenue from contracts with customers in accordance with PFRS 15 B87-89, revenue recognized in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price), the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, etc.) (PFRS 15). 3. There is no qualitative disclosure on the nature, timing and uncertainty of revenue and cash flows arising from contracts with customers (PFRS 15). 4. A note disclosure indicates that the Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business. This is not in accordance PFRS 15 which requires revenue to be measured at transaction price. 5. The Company did not disaggregate its revenue in accordance with PFRS 15 (an entity shall disaggregate revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors).

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	<p>6. The Notes to financial statement failed to disclose whether or not the company is acting as principal or agent on its contract obligations (PFRS 15).</p>
Costs and Expenses	<p>There is no explanatory notes on "Miscellaneous Expense" despite materiality of the amount (Section 8 of PFRS for SMEs).</p>
Leases	<p>Incomplete disclosures on Finance lease, the present value of future minimum lease payments at the end of the reporting period for each of the following period (PAS 17):</p> <ul style="list-style-type: none"> (a) Not later than one year; (b) Later than one year and not later than five years (c) Later than five years.
Related Party Transactions	<ol style="list-style-type: none"> 1. There is failure to disclose the nature of the related party relationship (PAS 24/Section 33 of PFRS for SMEs). 2. A note disclosure showed that "Due to related party" has no fixed repayment term. Considering the foregoing, such should be recognized among current assets since it can be implied that it is payable on demand (Sections 4, 11 and 33 of PFRS for SMEs). 3. No disclosures about the name of the company's ultimate controlling party, irrespective of whether there have been transactions between them (PAS 24 / Section 33 of PFRS for SMEs (as amended)). 4. Incomplete disclosures on related party transaction, i.e., date of maturity, whether they are secured, and the nature of the consideration to be provided in settlement; details of any guarantees given or received; and key management personnel compensation in total and for each of the following categories: <ul style="list-style-type: none"> (a) short-term employee benefits; (b) post-employment benefits; (c) other long-term benefits; (d) termination benefits; and (e) share-based payment (PAS 24).
Business Combinations	<p>Incomplete disclosures on Business Combinations, i.e., accounting method used in the acquisition of its new subsidiary (PAS 1 and PFRS 3).</p>
Retirement/Employee Benefits	<ol style="list-style-type: none"> 1. The Company did not recognize any retirement for its employees (PAS 19). 2. Note 2 states that "the Company accrues retirement benefits cost for all regular full-time employees based on the requirements of RA 7641". Under Philippine Interpretations Committee Q&A No. 2013-03, benefits due under RA 7641 are accounted as Defined Benefit Plan under Section 28 of PFRS for SMEs, thus disclosure in Note 10 however is not compliant with the prescribed disclosures of

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	<p>the said plan.</p> <ol style="list-style-type: none"> 3. Incomplete disclosure on "Retirement payable", i.e., the date of the most recent comprehensive actuarial valuation and, if it was not as of the reporting date, a description of the adjustments that were made to measure the defined benefit obligation at the reporting date (Section 28 of PFRS for SMEs). 4. The company did not disclose the reasons why using the projected unit credit method to measure its obligation and cost under defined benefit plans would involve undue cost or effort (Section 28 of PFRS for SMEs (as amended)). 5. The Company failed to disclose the maturity analysis of its undiscounted benefit payments.
Foreign Currency Transactions	Incomplete disclosures on Foreign Currency Transactions, i.e., the amount of exchange differences recognized in profit or loss during the period (Sec. 30.25 of PFRS for SMEs).
Critical Accounting Estimates	There is no discussion on the recoverability of the deferred tax assets (Paragraph 125 of PAS 1).
Prior Period Adjustment	There were no disclosures as to the nature of these prior period adjustments (PAS 8).
Financial Risk Management	<ol style="list-style-type: none"> 1. Incomplete disclosure on "Liquidity risk", i.e., a maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities and a maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows (PFRS 7). 2. Incomplete disclosures on credit risk, i.e., maximum amount of exposure (before deducting the value of collateral), description of the collateral, information about credit quality of financial assets that are neither past due nor impaired, and information about the credit quality of financial assets whose terms have been renegotiated (PFRS 7.36). 3. Incomplete disclosures on market risk, i.e., a sensitivity analysis of each type of market risk to which the entity is exposed, and additional information if the sensitivity analysis is not representative of the entity's risk exposure (PFRS 7.40-42).
Fair Value Measurement	There is no disclosure of fair value measurement of the financial assets and non-financial assets through fair value hierarchy (PAS 1 and PFRS 13).

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Events after the Reporting Period	<p>The company did not disclose the following as regards the effects of the COVID-19 outbreak, a non-adjusting event after the reporting period, in its financial statements:</p> <p>(a) the nature of the event; and</p> <p>(b) an estimate of its financial effect, or a statement that such an estimate cannot be made (Section 21 PAS 10).</p>
Retained Earnings	<ol style="list-style-type: none"> 1. There is no disclosure on the reversal of appropriations amounting to P50M during 2018 (PAS 1). 2. The Reconciliation of Retained Earnings Available for Dividend Declaration showed "Retained earnings appropriation for expansion". However, the Company did not provide its related disclosures (Financial Reporting Bulletin No. 15 and SRC Rule 68, as amended). 3. Despite adjustments to the company's Retained Earnings, it still exceeds 100% of its paid-in capital. There is no disclosure of any appropriation to comply with the requirements of Sec. 43 of the Corporation Code. 4. The company's retained earnings exceed 100% of its paid-in capital. There is no disclosure of any appropriation to comply with the requirements of Sec. 43 of the Corporation Code. 5. Incomplete disclosure on Appropriated Retained Earnings, i.e., date of the Board of Directors; specific details of the project and its timeline (PAS 1 and Sec. 43 of the Corporation Code).