

**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**

*(A Wholly Owned Subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD.)*

**Financial Statements**

**March 31, 2021**

*(With Comparative Figures for 2020)*

With independent auditor's report provided by:

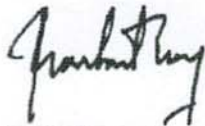
**ALBERTO C. AMARANTE, JR., CPA**

**"STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN"**

The Management of **DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.** (the "Company") is responsible for all information and representations contained in the Annual Income Tax Return for the year ended March 31, 2021. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended March 31, 2021 and the accompanying Annual Income Tax Return are in accordance with the books and records of **DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to Philippine Financial Reporting Standards for Small and Medium-sized Entities and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the Company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) the **DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.** has filed all applicable tax returns, reports and statements required to be filed under Philippine tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.



PRASHANT GARG

President/Chairman of the Board



JAYARAMA SHETTY ANIL KUMAR

Treasurer

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.  
New Site Street, San Gabriel  
Sta. Maria, Bulacan

### Report on the Financial Statements

#### *Opinion*

I have audited the accompanying financial statements of DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC. ("the Company"), which comprise the statement of financial position as at March 31, 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended March 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2021, and its financial performance and its cash flows for the year then ended March 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRS) for Small and Medium-sized Entities (SMEs).

#### *Basis for Opinion*

I conducted my audit in accordance with Philippine Standards on Auditing (PSA). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am 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 my audit of the financial statements in the Philippines, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the Code of Ethics. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### *Other Matter*

The financial statements of DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC. as at and for the year ended March 31, 2020 were audited by another auditor whose report dated August 06, 2020, expressed an unmodified opinion on those statements.

#### *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*

My 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 my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

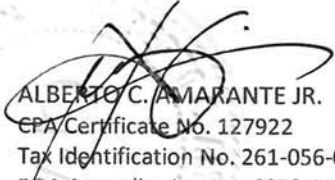
As part of an audit in accordance with PSA, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- 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 my 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 I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to
- the date of my 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.

I 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 I identify during my audit.

**Report on the Supplementary Information Required Under Revenue Regulations Nos. 34-2020 and 15-2010 of the Bureau of Internal Revenue**

My 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 Nos. 34-2020 and 15-2010 in Note 19 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 the Company. The information has been subjected to the auditing procedures applied in my audit of the basic financial statements and in my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ALBERTO C. AMARANTE JR.  
CPA/Certificate No. 127922  
Tax Identification No. 261-056-002  
BOA Accreditation No. 6979; Valid until February 01, 2023  
BIR Accreditation No. 08-007985-001-2021  
Valid until March 4, 2024  
PTR No. 8540585  
Issued January 07, 2021, Makati City


August 31, 2021  
Makati City, Metro Manila

**REPORT OF INDEPENDENT AUDITOR  
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE  
BUREAU OF INTERNAL REVENUE**

The Stockholders and the Board of Directors  
DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.  
New Site Street, San Gabriel  
Sta. Maria, Bulacan

I have audited the accompanying financial statements of DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC. (the Company) as at and for the year then ended March 31, 2021, on which I have rendered my report dated August 31, 2021.

In compliance with Revenue Regulations V-20, I am stating that I am not related by consanguinity or affinity to the president, managers or principal stockholders of the Company.



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**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**  
**(A Wholly Owned Subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD.)**

**STATEMENT OF FINANCIAL POSITION**

**MARCH 31, 2021**

**(With Comparative Figures for 2020)**

	Note	2021	2020
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash	4	₱1,311,329	₱12,456,406
Trade and other receivables	5	12,181,819	2,950,079
Inventory	6	13,425,845	10,941,658
Prepayment and other current assets	7	164,139	164,135
Total Current Assets		27,083,132	26,512,278
<b>Noncurrent Assets</b>			
Property and equipment	8	1,201,496	784,476
Other noncurrent assets	9	115,000	349,657
Total Noncurrent Assets		1,316,496	1,134,133
		₱28,399,628	₱27,646,411
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	₱7,037,159	₱12,819,173
Dividend payable	11	700,000	700,000
Income tax payable	16	1,041,480	449,344
Total Current Liabilities		8,778,639	13,968,517
<b>Equity</b>			
Capital stock		9,000,000	9,000,000
Retained earnings		10,620,989	4,677,894
Total Equity		19,620,989	13,677,894
		₱28,399,628	₱27,646,411

See accompanying Notes to Financial Statements.

**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**  
**(A Wholly Owned Subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD.)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED MARCH 31, 2021**  
**(With Comparative Figures for 2020)**

	Notes	2021	2020
<b>SALES AND SERVICE FEES</b>	12	<b>₱28,696,970</b>	₱28,403,599
<b>COST OF SALES AND SERVICES</b>	13	<b>13,005,203</b>	12,955,453
<b>GROSS PROFIT</b>		<b>15,691,767</b>	15,448,146
<b>OPERATING EXPENSES</b>	14	<b>(7,174,899)</b>	(8,011,021)
<b>OTHER INCOME (LOSS) - Net</b>	15	<b>(365,951)</b>	924,845
<b>INCOME BEFORE INCOME TAX</b>		<b>8,150,917</b>	8,361,970
<b>INCOME TAX EXPENSE (BENEFIT)</b>	16		
Current		<b>2,207,822</b>	1,123,597
Deferred		<b>-</b>	1,535,600
		<b>2,207,822</b>	2,659,197
<b>NET INCOME</b>		<b>5,943,095</b>	5,702,773
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>₱5,943,095</b>	₱5,702,773

*See accompanying Notes to Financial Statements.*



**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**  
**(A Wholly Owned Subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD.)**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED MARCH 31, 2021**  
**(With Comparative Figures for 2020)**

	2021	2020
<b>CAPITAL STOCK - ₱1 par value</b>		
Authorized, issued and outstanding - 10,000,000 shares	<b>₱9,000,000</b>	<b>₱9,000,000</b>
<b>RETAINED EARNINGS</b>		
Balance at beginning of year	<b>4,677,894</b>	<b>(1,024,879)</b>
Net income	<b>5,943,095</b>	<b>5,702,773</b>
Balance at end of year	<b>10,620,989</b>	<b>4,677,894</b>
	<b>₱19,620,989</b>	<b>₱13,677,894</b>

*See accompanying Notes to Financial Statements.*

**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**  
**(A Wholly Owned Subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD.)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2021**  
**(With Comparative Figures for 2020)**

	Note	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		₱8,150,917	₱8,361,970
Adjustments for:			
Depreciation	8	666,485	461,660
Interest income	15	(4,282)	(2,700)
Operating income before working capital changes		8,813,120	8,820,930
Decrease (increase) in:			
Trade and other receivables		(9,231,740)	(395,894)
Inventory		(2,484,187)	(6,132,039)
Other current assets		(4)	99,520
Increase in trade and other payables		(5,782,014)	10,546,107
Net cash (used for) provided by operations		(8,684,825)	12,938,624
Interest received	4	4,282	2,700
Income tax paid		(1,615,686)	(674,253)
Net cash (used in) provided by operating activities		(10,296,229)	12,267,071
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment	8	(1,083,505)	(579,500)
Other noncurrent assets		234,657	(18,547)
Net cash used in operating activities		(848,848)	(598,047)
<b>NET (DECREASE) INCREASE IN CASH</b>		<b>(11,145,077)</b>	<b>11,669,024</b>
<b>CASH AT BEGINNING OF YEAR</b>		<b>12,456,406</b>	<b>787,382</b>
<b>CASH AT END OF YEAR</b>		<b>₱1,311,329</b>	<b>₱12,456,406</b>

*See accompanying Notes to Financial Statements.*

**DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC.**  
**(A Philippine Branch Office of DIFFUSION ENGINEERS SINGAPORE LTD.)**

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**NOTES TO FINANCIAL STATEMENTS**

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**1. Corporate Information**

DIFFUSION WEAR SOLUTIONS PHILIPPINES, INC. (the "Company") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on February 07, 2014. The Company is a wholly-owned subsidiary of DIFFUSION ENGINEERS SINGAPORE LTD. ("DESL" or the "Parent Company"), a foreign company incorporated in Singapore. The Parent Company's principal activity is wholesale of industrial machinery and equipment. The Company's ultimate Parent Company is Diffusion Engineers Limited (DEL), a foreign company based in India.

The Company is authorized by Foreign Investment Act of 1991 (RA 7042) to operate as domestic market enterprise. A domestic market enterprise produces goods for sale, or renders services, or otherwise engages in any business in the Philippines.

The Company is engaged the business of maintenance, fabrication to various industrial plants engaged in mining, cement manufacturing and power plant companies.

The Company's registered and principal office is located at New Site Street, San Gabriel, Sta. Maria, Bulacan.

The accompanying financial statements of the Company as at and for the year ended March 31, 2021 were approved and authorized for issuance by the Company Manager, as designated by the Board of Directors (BOD) of the Home Office on August 31, 2021.

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**2. Summary of Significant Accounting Policies**

**Basis of Preparation**

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standard for Small and Medium-sized Entities (PFRS for SMEs) as issued by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

**Measurement Bases**

The financial statements are presented in Philippine Peso, the Company's functional currency. All values are rounded to the nearest Peso except when otherwise indicated.

The financial statements of the Company have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange of assets. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

**Standard Issued and Effective**

The Philippine Financial Reporting Standard for Small Entities (PFRS for Small Entities) was approved for adoption by the PFRS Council on December 13, 2017 and by the SEC on March 22, 2018. The PFRS for Small Entities is effective for annual periods beginning on or after January 1, 2019, and is required to be used by entities with total assets or total liabilities of ₱3.0 million to ₱100.0 million.

The PFRS for Small Entities reduced options for accounting treatment, eliminated topics that are not generally relevant to small entities, simplified methods for recognition and measurement, and reduced disclosure requirements.

The Company, which currently prepares its financial statements in accordance with PFRS for SMEs, is exempt from adopting the PFRS for Small Entities being a branch office of a foreign corporation reporting under International Financial Reporting Standards.

#### **Basic Financial Instruments**

The Company recognizes a financial asset and liability only when the Company becomes a party to the contractual provisions of the instrument.

The Company initially measures its financial assets and liabilities at the transaction prices unless the arrangement constitutes, in effect, a financing transaction. After initial measurement, financial assets and liabilities are measured at the undiscounted amount of cash or other consideration expected to be received or paid, less any allowance for impairment.

If the arrangement constitutes a financing transaction, the Company initially measures the financial assets and liabilities at the present value of the future payments discounted at a market rate of interest for a similar instrument. These are subsequently measured at amortized cost using the effective interest method.

The Company classifies its cash, trade and other receivables and trade and other payables (excluding statutory payables) as basic financial instruments.

*Cash.* Cash, which includes cash on hand and in banks, is stated at face value. Cash in banks earn interest at the prevailing bank deposit rates.

*Trade and Other Receivables.* Trade and other receivables are recognized initially at the transaction price. These are subsequently measured at original invoice amounts less any allowance for impairment losses on receivables. An estimate of impairment is made when collection of the full amount is no longer probable. A provision for impairment losses on 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.

*Trade and Other Payables.* Trade and other payables (excluding statutory payables) are obligations of the Company that are incurred during its normal operating cycle. These are recognized in the year in which the related money, goods or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets or expenses are recognized. These are measured at undiscounted amounts.

#### **Other Current Assets**

This account consists of prepaid rent and prepaid income tax. Other current assets are carried at cost.

*Prepaid Rent.* Prepaid rent represents rent expense not yet incurred but already paid in cash. Prepaid rent is initially recorded as asset and measured at the amount of cash paid. Subsequently, this is charged to expense as it expires with the passage of time.

Prepaid rent is classified in the statement of financial position as current asset when the related rent is expected to be incurred within one year. Otherwise, prepaid rent is classified as noncurrent asset.

*Prepaid Income Tax.* Prepaid income tax represents excess income tax payments which includes creditable withholding taxes (CWT) and tax credit which can be applied for future income tax.

CWT represents the amount withheld by the Company's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

#### **Inventory**

Inventory pertains to hardware and software for sale and are valued at the lower of cost and estimated selling price less costs to sell. Cost is determined using the specific identification method. Cost is calculated using the first-in, first-out (FIFO) method. Cost includes purchase price, freight and handling and other cost directly attributable to acquisition of inventories. Selling price less cost to sell is the estimated selling price in the ordinary course of business, less the estimated cost of marketing and distribution. In determining the selling price less cost to sell, the Company considers any adjustments necessary for obsolescence.

#### **Equity**

*Capital Stock.* Capital stock is measured at par value for all shares issued.

*Retained Earnings.* Retained earnings represent the accumulated net income or losses, net of any dividend declaration.

#### **Revenue Recognition**

Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, returns and value-added tax. The Company recognizes revenue to the extent that it is probable that future economic benefits will flow to the entity and that the amount of revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Sales and Service Fees.* Sales and service fees are recognized as revenue when the Company has delivered the products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

*Interest Income.* Interest income recognized using the effective interest method. Interest income is included in 'Other income (loss) - net' account in the statement of comprehensive income (loss).

*Other Income.* Other income is recognized when earned.

#### **Costs and Expense Recognition**

Costs and expenses are recognized in statement of comprehensive income (loss) upon receipt of goods, utilization of services or at the date the costs and expenses are incurred.

*Cost of Sales.* Cost of sales are recognized when the related goods are delivered to the buyer.

*Cost of Services.* Cost of services pertains to costs directly associated to the revenue generating activities of the Company. Cost of services is recognized when the related expenses incurred to render the services.

*Operating Expenses.* Operating expenses constitute costs of administering the business. These are expensed when incurred.

### **Related Party Relationship and Transactions**

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

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

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties.

### **Operating Leases**

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and benefits of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the period of the lease term.

### **Taxes**

*Current Income Tax.* Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at the reporting date.

*Deferred Income Tax.* Deferred tax is provided on all the temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carryforward benefits of unused net operating loss carryover (NOLCO).

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

The carrying amount of deferred tax assets is reviewed at each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax asset is reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred tax asset to be recovered.

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

*Value-added Tax (VAT)*. Revenue, expenses and assets are recognized, net of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or
- receivables and payables that are stated with the amount of VAT included.

The amount of VAT payable to taxation authority is included as part of "Trade and other payables" account in the statement of financial position.

#### **Foreign Currency-Denominated Transactions**

Transactions in currencies other than the functional currency are initially recorded using the functional currency rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency closing rate of exchange prevailing at the reporting date. All differences are taken to statement of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the functional currency rate of exchange prevailing at the dates of the initial transactions.

#### **Provisions**

Provisions, if any, 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. The expense relating to any provision is recognized in the profit or loss, net of any reimbursement. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### **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 disclosed in the notes to financial statements when an inflow of economic benefits is probable.

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

Events after the reporting date that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements when material. Events after the reporting year that are non-adjusting events are disclosed in the notes to financial statements when material.

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### 3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements requires the Company to exercise judgment, make estimates and use assumptions that affect amounts reported in the financial statements and related notes. Future events may occur which will cause the judgment and estimates to change. The effects of any change in judgment and estimates are reflected in the financial statements as these become reasonably determinable.

Judgment and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company believes that the following represents a summary of these significant judgment and estimates, and related impact and associated risks in the financial statements.

#### **Judgments**

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

*Determination of Functional Currency.* Based on the economic substance of the underlying events and circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the selling price of the goods or services and the costs of sales or services.

*Determining Classification of Lease Arrangement.* The Company, as a lessee, has existing lease agreements covering its office space and warehouse. The Company has determined that the lessor retains all significant risks and benefits incidental to the ownership of the leased properties. Accordingly, the lease is accounted for as operating lease.

Rent expense amounted to ₱717,592 in 2021 (₱192,632 in 2020) (see Notes 14 and 17).

#### **Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation at the statement of financial position date that have a significant risk of causing a material adjustment to the carrying amount of asset and liabilities within the next financial year are discussed below.

*Estimating Impairment Losses on Trade and Other Receivables.* The Company maintains allowance for impairment losses on trade receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to the Company's relationship with the counterparty, counterparty's current credit status and other known market factors. The Company reviews the age and status of trade receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates.

No impairment losses were recognized in 2021 and 2020. The carrying value of trade and other receivables amounted to ₱12,181,819 as at March 31, 2021 (₱2,950,079 as at March 31, 2020) (see Note 5).



*Estimating Inventory Losses.* The Company writes down the cost of inventories whenever estimated selling price less cost to sell is lower than cost due to damage, physical deterioration, obsolescence, change in price levels or other causes. The lower of cost and estimated selling price less cost to sell of inventories is reviewed annually to reflect the accurate valuation in the financial statements. Inventories identified to be obsolete and unusable are also written-off and charged as expense for the year.

No inventory loss was recognized in 2021 and 2020. The carrying amount of inventories amounted to ₱13,425,845 as at March 31, 2021 (₱10,941,658 as at March 31, 2020) is lower than its estimated selling price less costs to sell (see Note 6).

*Estimating Useful Lives of Property and Equipment.* The Company estimates the useful lives of its property and equipment based on the periods over which these assets are expected to be available for use. The estimated useful lives of the assets are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear and technical or commercial obsolescence on the use of these assets. It is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors in the foregoing.

There was no change in the estimated useful lives of the property and equipment in 2021 and 2020.

*Assessing Impairment of Property and Equipment.* At each reporting date, property and equipment is reviewed to determine whether there is any indication that the assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any 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 profit or loss.

There were no indications that property and equipment may be impaired. Accordingly, no impairment losses were recognized on property and equipment in 2021 and 2020. The carrying amount of property and equipment amounted to ₱1,201,496 as at March 31, 2021 (₱784,476 as at March 31, 2020) (see Note 8).

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#### 4. Cash

This account consists of:

	2021	2020
Cash in banks	₱1,015,299	₱12,379,052
Cash on hand	296,030	77,354
	<u>₱1,311,329</u>	<u>₱12,456,406</u>

Cash in banks earn interest at prevailing bank deposit rate. Interest income amounted to ₱4,282 in 2021 (₱2,700 in 2020) (see Note 15).

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#### 5. Trade and Other Receivables

This account consists of:

	2021	2020
Trade	₱11,560,067	₱2,647,820
Advances to supplier	460,634	-
Advances to employees	51,243	-
Others	109,875	302,259
	<u>₱12,181,819</u>	<u>₱2,950,079</u>

Trade receivables are noninterest-bearing and are normally settled within 30-90 days.

No allowance for impairment losses were provided in 2021 and 2020.

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#### 6. Inventory

The cost of inventories carried at cost, which pertains to stocks and items for sale needed for industrial plants engaged in mining, cement manufacturing and power plant companies, amounted to ₱13,425,845 as at March 31, 2021 (₱10,941,658 as at March 31, 2020) and is lower than the selling price less costs to sell.

The cost of inventories recognized as "Cost of sales" in the statement of comprehensive income is disclosed in Note 13.

No provision for inventory losses and obsolescence were provided in 2021 and 2020.

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#### 7. Prepayment and Other Current Assets

This account consists of:

	2021	2020
Tax credit	₱109,139	₱109,135
Prepaid rent	55,000	55,000
	<u>₱164,139</u>	<u>₱164,135</u>

## 8. Property and Equipment

Details and movements of the account follow:

2021						
	Note	Production Equipment and Tools	Leasehold Improvements	Company Vehicle	Furniture and Fixtures	Total
<b>Cost</b>						
Balance at beginning of year		₱1,978,868	₱1,436,681	₱352,138	₱57,464	₱3,825,151
Additions		1,069,505	-	-	14,000	1,083,505
Balance at end of year		3,048,373	1,436,681	352,138	71,464	4,908,656
<b>Accumulated Depreciation</b>						
Balance at beginning of year		1,676,926	954,147	352,138	57,464	3,040,675
Depreciation	13,14	341,685	321,689	-	3,111	666,485
Balance at end of year		2,018,611	1,275,836	352,138	60,575	3,707,160
<b>Net Carrying Value</b>		<b>₱1,029,762</b>	<b>₱160,845</b>	<b>₱-</b>	<b>₱10,889</b>	<b>₱1,201,496</b>

2020						
	Note	Production Equipment and Tools	Leasehold Improvements	Company Vehicle	Furniture and Fixtures	Total
<b>Cost</b>						
Balance at beginning of year		₱1,916,368	₱919,681	₱607,138	₱57,464	₱3,500,651
Additions		62,500	517,000	-	-	579,500
Deletion		-	-	(255,000)	-	(255,000)
Balance at end of year		1,978,868	1,436,681	352,138	57,464	3,825,151
<b>Accumulated Depreciation</b>						
Balance at beginning of year		1,297,523	873,696	607,138	55,657	2,834,014
Depreciation	13,14	379,403	80,451	-	1,807	461,661
Deletion		-	-	(255,000)	-	(255,000)
Balance at end of year		1,676,926	954,147	352,138	57,464	3,040,675
<b>Net Carrying Value</b>		<b>₱301,942</b>	<b>₱482,534</b>	<b>₱-</b>	<b>₱-</b>	<b>₱784,476</b>

Breakdown of depreciation as to classification:

	Note	2021	2020
Cost of sales and services	13	₱345,564	₱379,403
Outside services	14	320,921	82,258
		<b>₱666,485</b>	<b>₱461,661</b>

## 9. Other Noncurrent Assets

This account consists of:

	2021	2020
Rental security deposit	₱115,000	₱115,000
Input VAT	-	234,657
	<b>₱115,000</b>	<b>₱349,657</b>

## 10. Trade and Other Payables

This account consists of:

	2021	2020
Trade payables to related parties	₱5,972,122	₱11,389,702
Advances from client	736,999	736,999
Accrued expenses	205,976	631,789
Statutory payables	122,062	60,683
	<b>₱7,037,159</b>	<b>₱12,819,173</b>

Trade payables are noninterest-bearing and are generally payable on a 30-90 day term.

Accrued expenses mainly pertain to accrual of salaries which are expected to be settled in the following month.

Statutory payables include expanded withholding tax payable, compensation withholding tax payable and mandatory contributions to government agencies, which are settled in the following month.

## 11. Related Party Transactions and Balances

The Company, in the normal course of business, has transactions with its related parties as summarized below:

Account	Related party	Relationship	Nature of Transactions	Note	2021		2020	
					Transactions During the Year	Outstanding Balances	Transactions During the Year	Outstanding Balances
Trade payables	DESL	Parent Company	Purchase of Inventories	10	₱10,328,866	₱3,004,836	₱11,424,301	₱11,389,702
	DEL	Ultimate Parent Company	Purchase of Inventories	10	1,539,306	2,967,286	233,685	-
						<b>₱5,972,122</b>		<b>₱11,389,702</b>

The Company imports various stocks and items for sale needed for industrial plants engaged in mining, cement manufacturing and power plant companies. The purchases is included under "Purchases" account under "Cost of sales".

Outstanding balance of transactions with related parties at year end are noninterest-bearing, unsecured, payable on demand are expected to be settled in cash.

### Compensation of Key Management Personnel

Compensation of key management personnel of the Company, which pertains to short-term and other benefits, amounted to ₱1.4 million in 2021.

### **Dividends**

The company has declared cash dividends of ₱2,000,000 in January 2019. The amount of ₱700,000 remains outstanding and payable.

## 12. Sales and Service Fees

This account consists of sales of:

	2021	2020
Sales of:		
Services	₱20,601,660	₱2,267,434
Goods	8,095,310	23,499,559
	<b>₱28,696,970</b>	<b>₱25,766,993</b>

## 13. Cost of Sales and Services

Details of the account follows:

	2021	2020
Balance at beginning of year of inventories	₱10,941,657	₱70,205,304
Purchases	13,589,162	14,383,838
Total cost of goods available for sale	24,530,819	84,589,142
Less: Balance at end of year of inventories	13,425,845	75,820,540
Cost of sales	11,104,974	8,768,602
Outside services	612,483	2,398,714
Overhead	942,182	1,408,734
Depreciation	345,564	379,403
Total cost of sales and services	<b>₱13,005,203</b>	<b>₱12,955,453</b>

## 14. Operating Expenses

This account consists of:

	Note	2021	2020
Salaries and other benefits		₱3,107,798	₱3,202,440
Outside services		1,074,608	979,962
Rent	17	717,592	192,632
Professional fees		605,810	772,310
Representation		510,608	86,537
Depreciation	8	320,921	82,258
Transportation and travel		225,798	704,148
Repairs and maintenance		131,598	136,736
Taxes and licenses		122,295	870,610
Communication, light and water		102,626	134,836
Insurance		84,277	39,490
Office supplies		80,011	225,719
Miscellaneous		90,957	583,343
		<b>₱7,174,899</b>	<b>₱8,011,021</b>

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**15. Other Income (Loss) - Net**

This account consists of:

	2021	2020
Realized foreign exchange gain (loss) - net	(₱370,233)	₱869,071
Interest income	4,282	2,700
Gain on disposal of fixed assets	-	44,000
Other income	-	9074
	<b>(₱365,951)</b>	<b>₱924,845</b>

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**16. Income Tax**

Current income tax expense in 2021 and 2020 pertains to regular corporate income tax.

The reconciliation of the income tax expense at the statutory income tax rate to the income tax expense shown in the statement of comprehensive income follows:

	2021	2020
Income tax expense at statutory rate	₱2,139,616	₱2,508,591
Income tax effects of:		
Nondeductible expenses	69,330	189,183
Interest income not subject to final tax	(1,124)	(810)
Unrealized foreign exchange (gain) loss	-	(39,927)
Application of MCIT	-	2,161
	<b>₱2,207,822</b>	<b>₱2,659,198</b>

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**CREATE Law**

On November 26, 2020 the Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) Bill was approved by the Senate of the Philippines. Under the CREATE Bill, domestic corporation will be subjected to 25% or 20% income tax depending on the amount of total asset or total amount of taxable income. In addition, minimum corporate income tax (MCIT) shall be computed at 1% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

On February 3, 2021, the Senate and the Congress of the Philippines ratified the bill through bicameral conference. CREATE was signed into law on March 26, 2021.

The income tax rates used in preparing the financial statements as at and for the year ended March 31, 2021 is 26.25% for RCIT.

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**17. Lease Commitments**

The Company, as a lessee, has existing lease agreements with third parties for its main office and warehouse for a period of 1 year. The lease agreements are renewable upon mutual agreement by the parties.

Rent expense amounted to ₱717,592 in 2021 (₱192,632 in 2020) (see Note 14).

Refundable rental deposit amounted to ₱115,000 as at March 31, 2021 (₱115,000 as at March 31, 2020) (see Note 9).

Prepaid rent amounted to ₱55,000 as at March 31, 2021 (₱55,000 as at March 31, 2020) (see Note 7).

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## 18. Impact of COVID-19 Pandemic

In a move to contain the coronavirus disease (COVID-19) outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring State of Calamity throughout the Philippines for a period of six months and imposed an enhance community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020. On April 24, 2020, another two-week extension was announced extending the ECQ to May 15, 2020, particularly for Metro Manila and other high-risk COVID-19 areas in Luzon. The Inter-Agency Task Force (IATF) through Resolution No. 36 approved the guidelines on the implementation of the modified enhanced community quarantine (MECQ) that is in effect in NCR, Central Luzon, Calabarzon and other high-risk areas in Luzon starting May 16, 2020. This was subsequently lifted and placed the said areas in general community quarantine (GCQ) starting June 1, 2020. On August 4, 2020, NCR was reverted back to MECQ status as a move to curb the growing impact of the pandemic. Starting August 19, 2020, NCR was back into GCQ. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Company have also considered the potential impact of COVID-19 pandemic on its principal activities and future cash flows. To date, the impact of the pandemic on the Company's business has been minimal.

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## 19. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

### Revenue Regulations No. 15-2010

#### Output VAT

Details of output VAT declared in 2021 and the revenues upon which the same was based follow:

	Revenue	Output VAT
VATable Sales	₱28,696,970	₱3,443,636
Zero-rated		—
		<u>₱3,443,636</u>

Input VAT

Movements in input VAT paid for by the Company for the year ended March 31, 2021 are shown below:

Balance at beginning of year	₱97,001
Current year's domestic purchase/payments for:	
Goods other than capital goods	166,609
Importation of goods other than capital goods	1,713,350
Services	467,855
Applied against output VAT	(2,444,815)
<u>Balance at end of year</u>	<u>₱-</u>

Other Local and National Taxes

Details of the Company's taxes and licenses paid or accrued during the year are as follows:

Licenses and permits	₱121,795
Annual registration fee	500
<u>Balance at end of year</u>	<u>₱122,295</u>

Withholding taxes

Details of taxes paid, accrued, and/or withheld for the year ended March 31, 2021 are presented below:

	Paid	Accrued	Total
Expanded withholding tax	₱195,749	₱10,823	₱206,572
Compensation withholding tax	325,553	37,458	363,011
	<u>₱521,302</u>	<u>₱48,281</u>	<u>₱569,583</u>

Tax Assessment and Tax Case

The Company has no outstanding tax assessment and tax case as at and for the year ended March 31, 2021.

**Revenue Regulation No. 34-2020.**

The Company is not covered by the requirements and procedures for related party transactions provided under RR 34-2020.