



# SEDPI Social Enterprise Ventures, Inc.

Audited Financial Statements  
December 31, 2014

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors and Shareholders  
**SEDPI Social Enterprise Ventures, Inc.**  
Unit 303 Loyola Heights Condominium,  
23 Dela Rosa St., Loyola Heights  
Quezon City

### **Report on the Financial Statements**

We have audited the accompanying financial statements of **SEDPI Social Enterprise Ventures, Inc.** which comprise the statements of financial position as at December 31, 2014 and 2013 and the statements of comprehensive income, statements of changes in equity, and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **SEDPI Social Enterprise Ventures, Inc.** as of December 31, 2014 and 2013 and its financial performances and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards for Small and Medium-sized Entities.

### **Report on the Supplementary Information Required Under Revenue Regulation No. 15-2010**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulation 15-2010 in Note 10 is not a required part of the basic financial statements. Such information is the responsibility of management of **SEDPI Social Enterprise Ventures, 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.

### **MELICOR BRIONES VILLAREAL & CO., CPA'S**

#### **FLORIDA A. BRIONES**

Partner

CPA Certificate No. 78901

BOA Accreditation No. 0540, Valid Until December 31, 2015

BIR Accreditation Number 07-000572-1-2013, valid until December 31, 2015

TIN 128-261-118

PTR No. 0582741 issued on Jan. 25, 2015, Quezon City

Quezon City

April 13, 2015

**SEDPI SOCIAL ENTERPRISE VENTURES, INC.****STATEMENTS OF FINANCIAL POSITION**

(in Philippine Peso)

	December 31	
	2014	2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash, <i>Note 5</i>	813,243	62,024
Advances and Other Receivables, <i>Note 6</i>	50,000	-
Other Current Assets	7,377	6,477
<b>Total Current Assets</b>	<b>870,620</b>	<b>68,501</b>
<b>Non-Current Assets</b>		
Investment in Stocks	25,000	25,000
<b>Total Non-Current Assets</b>	<b>25,000</b>	<b>25,000</b>
<b>TOTAL ASSETS</b>	<b>895,620</b>	<b>93,501</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accrued Expenses and Other Current Liabilities, <i>Note 7</i>	921,404	135,278
Income Tax Payable, <i>Note 9</i>	-	-
<b>Total Current Liabilities</b>	<b>921,404</b>	<b>135,278</b>
<b>Long Term Liabilities</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>921,404</b>	<b>135,278</b>
<b>Stockholders' Equity</b>		
Capital Stock	62,500	62,500
Retained Earnings	(88,284)	(104,277)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>(25,784)</b>	<b>(41,777)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>895,620</b>	<b>93,501</b>

*See accompanying notes to financial statements*

**SEDPI SOCIAL ENTERPRISE VENTURES, INC.****STATEMENTS OF COMPREHENSIVE INCOME**

(in Philippine Peso)

	Year ended December 31	
	2014	2013
<b>REVENUE</b>	<b>50,000</b>	-
<b>COST OF SERVICES</b>	-	-
<b>GROSS PROFIT</b>	<b>50,000</b>	-
<b>OPERATING EXPENSES, <i>Note 8</i></b>	<b>35,226</b>	90,947
Professional Fees	7,500	5,000
Meetings and Conferences	-	29,491
Miscellaneous	-	600
Repairs and Maintenance	-	5,759
Supplies and Photocopy	-	9,261
Taxes and Licenses	27,726	25,465
Transportation	-	15,371
	<b>35,226</b>	90,947
<b>INCOME FROM OPERATIONS</b>	<b>14,774</b>	(90,947)
OTHER INCOME / (EXPENSES)		
Interest and other income	1,219	131
Penalties and Charges	-	(1,000)
<b>INCOME BEFORE TAX</b>	<b>15,992</b>	(91,816)
<b>PROVISION FOR INCOME TAX</b>	-	
<b>NET INCOME (LOSS)</b>	<b>15,992</b>	(91,816)

*See accompanying notes to financial statements*

**SEDPI SOCIAL ENTERPRISE VENTURES, INC.****STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

(in Philippine Peso)

	<b>Capital Stock</b>	<b>Retained Earnings</b>	<b>TOTAL EQUITY</b>
<b>Balances at December 31, 2012</b>	<b>62,500</b>	<b>(12,460)</b>	<b>50,040</b>
Net Income for the year		(91,816)	(91,816)
			-
<b>Balances at December 31, 2013</b>	<b>62,500</b>	<b>(104,277)</b>	<b>(41,777)</b>
Net Income for the year		15,992	15,992
<b>Balances at December 31, 2014</b>	<b>62,500</b>	<b>(88,284)</b>	<b>(25,784)</b>

*See accompanying notes to financial statements*

**Social Enterprise Development Partnership, Inc.****STATEMENTS OF CASH FLOWS**

(in Philippine Peso)

	Year Ended December 31	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income Before Tax	15,992	(91,816)
Adjustments for:		
Advances and receivables, <i>Note 6</i>	(50,000)	62,500
Other current assets	(900)	(6,467)
Accounts payable, <i>Note 7</i>	786,126	55,165
<b>Net cash used in operating activities</b>	<b>751,219</b>	<b>19,381</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase)/Decrease in Other Assets	-	(20,000)
<b>Net cash used in investing activities</b>	<b>-</b>	<b>(20,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
<b>Net cash used in financing activities</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>751,219</b>	<b>(619)</b>
<b>CASH AT BEGINNING OF THE YEAR</b>	<b>62,024</b>	<b>62,644</b>
 <b>CASH AT END OF THE YEAR</b>	 <b>813,243</b>	 <b>62,024</b>

*See accompanying notes to financial statements*

## **SEDPI SOCIAL ENTERPRISE VENTURES, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2014

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#### **1. The Company.**

The **SEDPI Social Enterprise Ventures, Inc.** is a domestic stock corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines. It was registered with the Securities and Exchange Commission on April 2, 2012 under SEC Registration No. CS201206594, and its principal office address is at Unit 303 Loyola Heights Condominium, 23 Dela Rosa St., Loyola Heights, Quezon City

Its primary purpose is to provide capacity building services such as trainings, research, technical assistance and financial support to start up and growing social enterprises.

The Company started commercial operations in June 2012.

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#### **2. Summary of Significant Accounting and Financial Reporting Policies**

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

##### **2.1 Basis of Preparation**

The financial statements are presented in Philippine peso, which is the Company's functional currency. All amounts are rounded to the nearest Philippine Peso, except when otherwise indicated. They have been prepared under the historical cost basis.

##### **2.2 Statement of Compliance**

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) for Small and Medium sized Entities (SMEs).

##### **2.3 Accounting Policies**

The specific accounting policies followed by the Company are disclosed in the following section.



### **Cash and Cash Equivalents**

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of up to three months or less from dates of acquisitions and that are subject to an insignificant risk of change in value.

### **Trade Receivables**

Trade receivables represent accounts receivables and are measured at invoice price and subsequently measured at face value as reduced by any appropriate allowances for doubtful accounts. The allowance for doubtful accounts are the estimated amount of probable losses arising from non-collection of receivables based on past collection experience and Management's review of the current status of the long-outstanding receivables.

### **Other Receivables**

Other receivables are stated at their face values. These are receivables other than those which arise from the ordinary course of business of the Company. Other receivables consist of advances to employees and advances to suppliers.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation, and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance costs, are normally charged to income in the period the costs are incurred. In situations, where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When property and equipment are sold or retired, their cost, accumulated depreciation and any impairment in value are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income and expenses.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The useful lives of the properties are as follows:

	<u>Estimated Useful Life in Years</u>
Building	20
Furniture and fixtures	8
Transportation Equipment	10
Office equipment	3

### **Asset Impairment**

At each reporting date, property and equipment are reviewed to determine whether there is any indication that assets have suffered an impairment loss. If there is an 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 is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized in profit or loss.

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 profit or loss.

### **Value-added Tax (VAT)**

VAT is equal to 12% of the purchase or selling price of the taxable goods and services. VAT imposed on purchases is called input VAT while VAT imposed on sales/services is called output VAT. Input VAT and output VAT are presented at net in the statement of financial position. Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Input VAT is generally recoverable through application to output VAT.

### **Trade and Other Payables**

Trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier. Trade payables are non-interest bearing and are stated at their nominal values.

Accruals, if any, are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions

Trade accounts payable and accrued expenses are recognized in the period 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. Trade and other payables are measured initially at their nominal values and subsequently recognized at amortized costs less settlement payments.

### **Other Current Liabilities**

Other current liabilities represent obligations arising from mandatory requirements of government and other agencies and not just from a mere contractual agreement between related parties.

### **Loans Payable**

Loans payable are long term borrowings availed from bank measured at their fair values and subsequently recognized at amortized costs less settlement payments, if any.

**Total Equity**

Total equity comprises of contributed capital and cumulative fund.

**Share Capital**

Share capital is determined using the nominal value of shares that have been issued and fully paid. The costs of acquiring Company's own shares, if any, are shown as a deduction from equity attributable to the company's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, and are included in equity attributable to the company's equity holders.

**Share Premium**

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

The Company has no share premium as of December 31, 2014.

**Cumulative Earnings**

Cumulative earnings include all current and prior period's results of operation as disclosed in the statement of income.

**Revenue Recognition**

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the company and the amount of the revenue can be measured reliably.

**Interest Income**

Interest income is recognized as the interest accrues.

**Cost and Expense Recognition****Cost of sales**

Cost of sales/service is recognized when goods are delivered to and accepted by the customers.

**General and administrative expenses**

General and administrative expenses comprise costs of administering the business and are recognized in the statement of income upon utilization of the service or in the dates they are incurred.

**Employee Benefits****Short-term Benefits**

The company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the

Company to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses, and other non-monetary benefits.

### ***Long-term Benefits***

The Company provides retirement benefits to entitled employees as mandated by law.

### **Income Taxes**

#### *Current income tax*

Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted at the financial reporting date.

#### *Deferred income tax*

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the financial reporting date. Movements in the deferred income tax assets and liabilities arising from changes in the tax rates are charged or credited to the income for the period.

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

### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of 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. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Where the Company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

### **Contingencies**

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

### **Events after the End of the Reporting Period**

Post-year-end events up to the date of the auditor's report that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

### **Related Parties**

Related party relationships exist when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (1) individual owning, directly or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company; (2) associates; and (3) 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.

The key management personnel of the Company and post-employment benefit plans for the benefit of Company's employees are also considered to be related parties.

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

The following are the new and revised standards and interpretations that will become effective subsequent to December 31, 2014. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on its financial statements.

#### *Effective in 2015*

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards and are not expected to have a material impact on the Company's financial statements:

- PFRS 2, *Share-based Payment: Definition of Vesting Condition (Amendment)*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination (Amendment)*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets (Amendments)*, require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization (Amendment)*, clarify that the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation and amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  - b. The accumulated depreciation and amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated depreciation and amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period.

- PAS 24, *Related Party Disclosures - Key Management Personnel (Amendments)*, clarifies a management entity, which is an entity that provides key management personnel

services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

*Annual Improvements to PFRSs (2011-2013 cycle)*

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards and are not expected to have a material impact on the Company's financial statements:

- ❑ PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements (Amendment)*, clarifies that PFRS3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- ❑ PFRS 13, *Fair Value Measurement – Portfolio Exception (Amendment)*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.
- ❑ PAS 40, *Investment Property (Amendment)*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3.

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### **3. Management's Significant Accounting Judgments and Estimates**

#### **3.1 Judgments**

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards for Small and Medium-sized Entities (PFRS for SMEs). The Company qualifies as Small and Medium-sized Entity. The preparation of the financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the Company's financial statements are based upon Management's evaluation of relevant facts and circumstances as of the date of the Company's financial statements. Actual results could differ from such estimates. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### **Determination of the Company's functional currency**

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be the Philippine peso.

#### **3.2 Estimates**

Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The

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

#### **Estimation of useful lives of property and equipment**

Useful lives of property and equipment are estimated based on the period over which these assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates. Any reduction in the estimated useful lives of property and equipment would increase the Company's recorded operating expenses and decrease non current assets.

Depreciation is computed using the straight-line method over the estimated useful lives of the properties which are reviewed from time to time to ensure that these are consistent with the expected economic benefits of the property and equipment.

The useful lives of the properties are as follows:

	<u>Estimated Useful Life in Years</u>
Building	20
Furniture and fixtures	8
Transportation Equipment	10
Office equipment	3

*There is no change in the estimated useful lives of property and equipment and for the years ended December 31, 2014 and 2013.*

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

The Company assesses the value of property and equipment which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, and require the Company to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Company to conclude that property, plant and equipment and other long-lived assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Company believes that its assumptions are appropriate and reasonable, significant changes in these assumptions may materially affect the Company's assessment of recoverable values and may lead to future additional impairment charges.

#### **Allowance for Doubtful Accounts**

The company assesses whether objective evidence of impairment exists for receivables and due from related parties that are individually significant and collectively for receivables that are not individually significant. Allowance for doubtful accounts is maintained at a level considered adequate to provide for potentially uncollectible receivables.

#### **Revenue Recognition**

The Company's revenue recognition policies require the use of estimates and assumptions that may affect the reported amounts of revenues and receivables. Differences between



the amounts initially recognized and actual settlements are taken up in the accounts upon reconciliation. However, there is no assurance that such use of estimates may not result to material adjustments in future periods.

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#### **4. Financial Risk Management Objectives and Policies**

The Company's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance of the Company. The policies for managing specific risks are summarized below.

##### ***Governance Framework***

The Company has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity and operational risks. It also supports the effective implementation of policies.

The policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets to the corporate goals and specify reporting requirements.

##### ***Capital Management Framework***

The Company's risk management function has developed and implemented certain minimum stress and scenario tests for identifying the risks to which the Company are exposed, quantifying their impact on the volatility of economic capital. The results of these tests, particularly, the anticipated impact on the realistic balance sheet and revenue account, are reported to the Company's risk management function. The risk management function then considers the aggregate impact of the overall capital requirement revealed by the stress testing to assess how much capital is needed to mitigate the risk of insolvency to a selected remote level.

##### ***Regulatory Framework***

The operations of the Company are also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

##### ***Financial Risk***

The Company is also exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risk are credit risk, liquidity risk and market risk.

***Credit Risk***

The Company's credit risk is primarily attributable to its trade and other receivables. The Company has adopted stringent procedure in extending credit terms to customers and in monitoring its credit risk. Receivable balances are being monitored on a periodic basis to ensure timely execution of necessary intervention efforts.

*As of balance sheet date, there were no significant concentrations of credit risk.*

***Liquidity Risk***

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of generated funds. Liquidity risk is the risk when the Company will be unable to meet its payment obligations when they fall due. The Company manages this risk through periodic monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The Company also ensures that there are sufficient, available and approved working capital lines that it can draw from anytime.