

Compilation of Material Findings on 2013 AFS Reviewed by the Commission

Components of Financial Statements	Findings
Auditor's Report	<ol style="list-style-type: none"> 1. The BIR Accreditation Number and its validity period are not indicated (SRC Rule 68, as amended). 2. The Auditor's Report failed to indicate the control number and the expiration dates of the SEC accreditation of the auditing firm and signing external auditor (SRC Rule 68, as amended). 3. There is no legal matter paragraph in the auditor's report to cover the information required by Revenue Regulation 15-2010 (PSA 700).
Cash Flows Statement	Material items on the face of the Statement of Cash Flows are not cross-referenced to related Notes to FS (Sec. 8.3 of the PFRS for SMEs).
Supplemental documents required by SRC Rule 68, as amended	<ol style="list-style-type: none"> 1. There is no audited Reconciliation Schedule of Retained Earnings Available for Dividend Declaration (SRC Rule 68, as amended Part I, 4C). 2. There is no audited schedule showing all the effective standards and interpretations as of year-end and indicating whether each standard is adopted, unadopted or not applicable (SRC Rule 68, as amended). 3. There is no schedule showing financial soundness indicators in two comparative periods, as follows: current/liquidity ratios; solvency ratios; debt-to-equity ratios; asset-to-equity ratios; interest rate coverage ratios; profitability ratios (SRC Rule 68, as amended).
Supplemental Written Statement of Auditor	<ol style="list-style-type: none"> 1. The Supplemental Written Statement of Auditor failed to indicate the external auditor's SEC Certificate of Accreditation number and its expiration date (SRC Rule 68, as amended). 2. There is no Supplemental Written Statement of External Auditor (SRC Rule 68, as amended).

Notes to Financial Statements	Findings
Available-for-sale financial assets	<ol style="list-style-type: none"> 1. There is no accounting policy on the initial measurement of available-for-sale financial assets (PAS 39). 2. Based on page 13 of the notes to financial statements, available-for-sale financial assets are carried at fair value. Note 8 however, shows that the company's available-for-sale financial assets include "Club share securities" that are not traded in a formal exchange, thus, said securities should have been carried at cost less impairment (PAS 39).
Borrowings	<ol style="list-style-type: none"> 1. Incomplete disclosures on "bank borrowings", i.e. interest rate, disclosures on whether the company is compliant with the covenants and warranties on loans payable as of end of year and, i.e. defaults and breaches (Sections 8 & 11 of PFRS for SMEs). 2. Incomplete disclosures on borrowings, i.e., covenants, carrying amount of assets used as pledge of collateral for its loan payable to include the terms and conditions relating to the pledge (PFRS 7).
Capital Management	Incomplete discussion, i.e., summary of quantitative data about what the company manages as capital (PAS 1).
Cash and Cash Equivalent	<ol style="list-style-type: none"> 1. There is no breakdown as to "Cash on Hand" and "Cash in Bank" (Sec. 8 of PFRS for SMEs). 2. There is no disclosure of the components of cash and cash equivalents (PAS 1).
Costs and Expenses	<ol style="list-style-type: none"> 1. There are no disclosures on the nature and amount of each items deducted from "Gross Purchases" to arrive at "Net Purchases" 2. There is no accounting policy on costs and expenses (PAS 1, PAS 18).
Employee Benefits	There are no accounting policy and disclosures on employee benefits (Sec. 28 of PFRS for SMEs).
Equity	There are no disclosures of the date of Board of Directors' approval on the appropriation of the retained earnings for "Future expansion and other development projects", and the specific timeline of accomplishment/completion of those projects in Notes to FS (PAS 1, Section 43 of the Corporation Code).

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Financial Assets	<ol style="list-style-type: none"> 1. Note 2 states that "Trade receivables are carried at original invoice price less any allowance for doubtful accounts". This is not in accordance with Sec. 11.14 which requires debt instruments to be measured at amortized cost using the effective interest method. 2. There are no accounting policies on derecognition and impairment of financial assets (Sec. 11 of PFRS for SMEs). 3. There is no accounting policy on subsequent measurement on Financial assets (Sec. 11 of PFRS for SMEs).
Financial Liabilities	<ol style="list-style-type: none"> 1. There is no accounting policy on financial liabilities (Sec. 11 of PFRS for SMEs.) 2. There is no explanatory note on "Due to Shang Grand Tower Corp." despite materiality of the amount (Sec. 11 of PFRS for SMEs).
Financial Risk Management	<ol style="list-style-type: none"> 1. Considering the adopted financial framework, the disclosure in Note 4 on financial risk management is not necessary (SRC Rule 68, as amended) 2. There is no quantitative analysis on interest rate risk (PFRS 7).
Income Taxes	There is no disclosure of the numerical reconciliation of beginning and ending balance of deferred tax liability in Note 12 (PAS 12).
Inventories	<ol style="list-style-type: none"> 1. The accounting policy on measurement of inventories in page 7, i.e., cost, is not in accordance with the prescribed measurement basis of "lower of cost and net realizable value" under PAS 2. 2. Note 17 indicates "other inventory adjustments" on raw materials and finished goods amounting to P151,780 and P1,348,120, respectively, however, there is no explanatory note on such adjustments (PAS 2, PAS 1). 3. Incomplete disclosures on "inventories", i.e., impairment losses recognized or reversed in the profit and loss (PAS 2)
Investment Property	There is no accounting policy on subsequent measurement of Investment Property (Sec. 16 of PFRS for SMEs).
Leases	<ol style="list-style-type: none"> 1. Incomplete disclosures on "leases", i.e., general description of leasing arrangement, minimum lease payments receivable at the end of the reporting period for each of the following periods a) not later than one year; b) later than one year and not later than five years; and c) later than five years (Sec. 20 of PFRS for SMEs). 2. There are no accounting policy and disclosures on leases (Sec. 20 of PFRS for SMEs)

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<p>Liabilities</p>	<ol style="list-style-type: none"> 1. There are no disclosures on “Trust receipts payable” (PAS 1, PFRS 7). 2. Incomplete disclosures on “Loans payable”, i.e., maturity dates, covenants and warranties and whether or not these were complied with as of year-end, any collateral given and/or restriction that the debt instrument imposes on the entity (paragraph 112c of PAS 1, paragraphs 18 and 19, PFRS 7). 3. There is no accounting policy on “Loans payable” (Section 11, PFRS for SMEs). 4. Note 11 merely states that “other payables consists of deposits from customers”, it does not contain information on the terms and transactions related to the deposits (Sections 8 and 11 of PFRS for SMEs) 5. Per page 13, the financial liabilities are initially measured at fair value. PAS 39 however, requires initial measurement of financial liabilities at fair value plus transaction costs that are directly attributable to the issue of the financial liabilities. 6. There is no disclosure of the terms and conditions on “Deposits held in trust” in Note 18 (PAS 39, PFRS 7). 7. There are no accounting policies on the initial and subsequent measurement of liabilities (Section 11, PFRS for SMEs). 8. Incomplete disclosures on Notes Payable, i.e., description of the account, maturity dates, interest rates applied, whether secured or unsecured (PFRS 7, PAS 1). 9. Incomplete disclosures on other current liabilities, i.e., nature and amount of each item comprising “accounts payable-others” (Section 8 and 11 of PFRS for SMEs)
<p>Property and Equipment</p>	<ol style="list-style-type: none"> 1. There are no accounting policies on the initial measurement and derecognition of property, plant and equipment (PAS 16). 2. There is no accounting policy on the initial recognition of “Property and equipment” (PAS 16). 3. There is no disclosure of the existence of restrictions on title and carrying amounts of property and equipment used as collateral for liabilities (Section 17.32, PFRS for SMEs). 4. Based in Note 8, major repairs were capitalized which is in contrary to the accounting policy adopted per Note 2 which states that expenditures for repairs and maintenance are charged to expense as incurred. 5. Based on page 6, PE are subsequently measured at “cost less accumulated depreciation, amortization and any impairment in value”. This is inconsistent with the recognition of “Revaluation surplus” which shows that the company used the revaluation model (PAS 16). 6. Note 15 (c) indicates that revaluation surplus of land was based on bank’s appraisal and increases of values by the Assessor’s Office. While that of the building was revalued in 2005 in the amount of P60.092 Million due to the increases in the value of construction materials. Both methods are not acceptable basis of fair value pursuant to PAS 16. 7. Incomplete disclosures on the following with regards to the revaluation of PPE: <ol style="list-style-type: none"> a. The methods and significant assumptions applied in estimating the items’ fair value; b. The extent to which the items’ 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; c. For each revalued class of PPE, the carrying amount that would have been recognized had the assets been carried under the cost model; and d. The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders (PAS 16).

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Receivables	<ol style="list-style-type: none"> 1. Per Note 2, loan and receivables are carried at cost or amortized cost. There is no disclosure however of the receivables and its corresponding amounts that are carried at "cost" and at "amortized cost" (PAS 39). 2. There is no aging analysis on receivables (Section 8, PFRS for SMEs).
Related Party Transactions	<ol style="list-style-type: none"> 1. Incomplete disclosures on "related party transactions", i.e., key management personnel compensation (Sec. 33 of PFRS for SMEs). 2. There are no accounting policy and disclosures on related party transactions for each category (parent, entities with joint control or significant influence over the entity, subsidiaries, associates, and joint ventures) in columnar format containing the following information: <ol style="list-style-type: none"> a. nature of transaction; b. terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement, and details of any guarantees given or received; and c. compensation of key management personnel (Sec. 33 of PFRS for SMEs).
Related Party Transactions	<ol style="list-style-type: none"> 3. There is no accounting policy on related party transactions (Section 33, PFRS for SMEs). 4. Incomplete disclosures on "Advances from stockholders", i.e., whether or not said advances are secured, and the nature of consideration to be provided in settlement (Section 33, PFRS for SMEs). 5. Incomplete disclosures on "Advances receivable", i.e., amount of the transactions; nature of the consideration to be received in settlement; expense recognized during the period in respect of doubtful debts (PAS 24). 6. There is no explanatory note on "Advances from stockholders of a subsidiary" under Note 17 on "Other Non-current Assets" despite materiality of amount (PAS 1, PAS 24, PAS 39). 7. Incomplete disclosures on "Advances to affiliates", i.e., terms and conditions, nature of the consideration to be received in settlement, expense recognized during the period in respect of doubtful debts (PAS 24). 8. There is no disclosure of the specific nature of relationship with "Affiliates" (PAS 24). 9. Incomplete disclosures on related party transactions, i.e., assets used or held as collateral (PAS 24,16,2). 10. Note 6.3 indicates "Due from related parties" amounting to P19.7 Million. Note 18 however, only shows an outstanding balance of P18.8 Million or a difference of P0.9 Million (PAS 1, PAS 24).
Retirement Benefits	<p>Page 7 on "Employee Benefits" (b) states that "the corporation does not have funded employee's retirement benefit plan. It has not recognized liability for service and annual cost of earned retirement benefits due to its employees, a departure from PAS 19.</p>
Revenue	<ol style="list-style-type: none"> 1. There are no disclosures on "Gain on Sale of Property" despite materiality of amount (Section 8, PFRS for SMEs). 2. There are no specific revenue recognition policies on interest income and commissions (Sec. 23 of PFRS for SMEs). 3. There is no disclosure of the items and amounts of each significant category of revenue recognized during the period (Pas 18). 4. There is no disclosure of the amount of deductions from "Gross Sales" to arrive at "Sales-net" (PAS 18). 5. There are no specific revenue recognition policies on "Miscellaneous Income", "Interest Income", "Dividend Income" and "Other Income" (Sec. 23 of PFRS for SMEs).