2018 PH Supplementary Guidance

Illustrative disclosure: General information

Note 1: General information

PAS1(138) (a)(b); PAS1(51)(a)(b)

VALUE PFRS Corporation ('the Company') was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on November 19, 2000, the same date the Company attained its status of being a public company. The Company and its subsidiaries ('the Group') manufacture, distribute and sell shoes, footwear products and leather goods through a network of independent retailers.

PAS1(138)(c); PAS24(13)

The Group is controlled by Parent Footworks Philippines, Inc. (incorporated in the Philippines), which owns 57% of the Company's shares. The remaining 43% of the shares are widely held. The ultimate parent of the Group is Grand Feet Supreme Holdings, Inc. (incorporated in the Philippines).

The Company has its primary listing on the Philippine Stock Exchange, Inc.

PAS1(138)(a); SEC requirement Annex C SRC Rule 12.A.2.xiv

The Company has its registered office address, which is also its principal place of business at 350 Harbour Street, 1234 Nice Town. It has 535 employees as at December 31, 2018 (2017 - 210 employees) [PH.1]

SRC Rule 68, Part II(1)(C)

[Applicable for entities deemed as public company]

The Company is considered a public company under Rule 3.1 of the Implementing Rules and Regulations of the Securities Regulation Code, which, among others, defines a public company as any corporation with a class of equity securities listed on an exchange, or with assets of at least P50 million and having 200 or more shareholders, each of which holds at least 100 shares of its equity securities. As at December 31, 2018, the Company has 745 shareholders (2017 - 680) each holding at least 100 shares of the Company's common shares. [PH.2]

The Company's major shareholders consist mainly of local companies and group of shoe manufacturers.

Revised SRC Rule 68, Part I Section 3B(iv) subpar(v)

[Applicable for entities in a capital deficiency position]

The Company has been incurring losses and is in a capital deficiency position as at December 31, 2018. This condition indicates the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. The consolidated financial statements do not include adjustments that might result from the outcome of this uncertainty. The Company plans to address such uncertainty through [state the entity's plans to address the capital deficiency]. [PH.3]

PAS10(17)

These consolidated financial statements have been approved and authorized for issuance by the Board of Directors on [DATE]. [PH.4]

All press releases, financial reports and other information are available at our Shareholders' Centre on our website: www.valueifrsplc.com

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PH.1 Disclosure of number of employees is no longer required in the audited financial statements. However, under SRC Rule 12 the Company is required to report to the SEC the number of employees as stated in Annex C of SRC Rule 12.A.2. Voluntary disclosure of number of employees is at the discretion of the Company.

PH.2 For companies reporting under the Revised SRC Rule 68 Part II, disclosure on number of shareholders should be made in the notes, while a separate supplemental written statement of the auditor is required for non-public entities under the Revised SRC Rule 68, Part I Section 3B(v).

PH.3 In the Philippines, for entities in a capital deficiency position, the SEC requires disclosures on the entity's plan to address such capital deficiency. Presented above is a sample wording of such disclosure. The form and content of this particular paragraph, if required and necessary, will vary depending on the circumstances of the entity and the plan to address the capital deficiency. For detailed guidance on reportorial requirements for companies, see Revised SRC Rule 68.

PH.4 The date of approval of the financial statements is the date on which those with the recognized authority assert that they have prepared the entity's complete set of financial statements, including the related notes, and they have taken responsibility for them. An entity should disclose the date when the financial statements were authorized for issue and who gave that authorization. Consequently, our audit report should not be dated earlier than the date indicated in the financial statements.

Illustrative disclosure: (Un)recognized NOLCO and MCIT

(Un)recognized DIT assets at December 31 consist of the tax effects of the following temporary differences:

	2018	2017
Temporary differences arising from:		
Allowance for inventory obsolescence	xxxxx	xxxxx
Allowance for impairment of receivables	xxxxx	xxxxx
Accrued expenses	xxxxx	xxxxx
Net operating loss carryover (NOLCO)	xxxxx	xxxxx
	xxxxx	xxxxx
(Un)recognized DIT at 30%	xxxxx	xxxxx

The Company is entitled to net operating loss carryover (NOLCO) benefit which can be applied to an entity's taxable income for three succeeding years from the year the loss was incurred. Also, the Company shall pay the higher of the Minimum Corporate Income Tax (MCIT) or normal corporate income tax. MCIT is 2% of gross income as defined under the Act. Any excess of MCIT over the normal income tax shall be carried forward annually and applied against the normal income tax for the next succeeding taxable years.

The details of the Company's NOLCO and MCIT which can be claimed as deductions from regular corporate taxable income at December 31 are as follows:

NOLCO

Year loss was incurred	Year of expiration	2018	2017
2018	2021	xxxxx	xxxxx
2017	2020	xxxxx	xxxxx
2016	2019	xxxxx	xxxxx
		xxxxx	xxxxx
Tax rate		30%	30%
(Un)recognized DIT on NOLCO		xxxxx	xxxxx

MCIT

Year MCIT was incurred	Year of expiration	2018	2017
2018	2021	xxxxx	xxxxx
2017	2020	xxxxx	xxxxx
2016	2019	xxxxx	xxxxx
(Un)recognized MCIT		xxxxx	xxxxx

Illustrative disclosure: Related party transactions and balances

Guidance

SEC's Financial Reporting Bulletin (FRB) No. 013 issued on January 24, 2013 provides the following minimum disclosures that must be observed by the corporations, to attain the objective of PAS 24 of providing an understanding of the potential effect of the relationship on the financial statements:

1. The required disclosures on transactions and outstanding balances shall be made **separately for each** of the following categories:
   (a) the parent; (b) entities with joint control or significant influence over the entity; (c) subsidiaries; (d) associates; (e) joint ventures in which the entity is a venture; (f) key management personnel of the entity or its parent; and (g) other related parties.

2. For each of said category, the following information shall be provided:
   (a) the amount of the transactions;
   (b) the amount of outstanding balances and their 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;
   (c) provisions for doubtful debts related to the amount of outstanding balances;
   (d) the expense recognized during the period in respect of bad or doubtful debts due from related parties.

3. The presentation shall be made in **columnar format according to the above categories and disclosure items**.

Illustrative disclosure:

Note XX - Related party transactions

The tables below summarize the Company's transactions and balances with its related parties.

	As at and for the year ended XXXX	**Transactions**	**Outstanding balance[1]**	**Terms and conditions**
24p18(a)	Sales of goods[2]			• Goods are sold based on the price lists in force and terms that would be available to third parties. Sales of services are negotiated with related parties on a cost-plus basis, allowing a margin ranging from 15% to 30% • The receivables are due two months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties.
	Associates	1,002	26	
	Associates of Grand Feet Supreme Holdings, Inc.	121	24	
24p18(a)	Sales of services			
	Ultimate parent (legal and administration services)	67	50	
	Close family members of the ultimate controlling party (design services)	100	4	
24p18(a)	Purchases of goods			• Goods and services are bought from associates and an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel is a firm belonging to Mr. Chamois, a non-executive director of the Company. Management services are bought from the immediate parent on a cost-plus basis, allowing a margin ranging from 15% to 30%. • The payables to related parties arise mainly from purchase transactions and are due two months after the date of purchase. The payables bear no interest.
	Associates	3,054	2,902	
24p18(a)	Purchases of services			
	Entity controlled by key management personnel	83	100	
	Immediate parent (management services)	295	200	

forward

[1] If there are provisions/ allowances, present receivables at gross and present provisions/ allowances separately.

[2] Management should disclose that related-party transactions were made on an arm's length basis only when such terms can be substantiated (PAS24(R)p21).

	As at and for the year ended XXX	Transactions	Outstanding balance	Terms and conditions
	forwarded			
	Associates			
	Loans to associates			- The loans to associates are due on January 1, 2015 and carry interest at 7%. The fair values and the effective tax rates of loans to associates are disclosed in Note 9.
	Loan outstanding balance		2,178	
	Loans advanced during the year	1,000		
	Loan repayments received	(14)		- Certain loans to associates during the year amounting to P1,500 are collateralized by shares in listed companies. The fair value of these shares was P65 at the reporting date.
	Interest charged	187		
	Interest received	(187)		
	Key management personnel[3]			• Key management includes directors (executive and non-executive), members of the Executive Committee, the Company Secretary and the Head of Internal Audit.
	Short-term benefits			
24p17(a)	Salaries and other short-term employee benefits	2,200	-	
24p17(d)	Termination benefits	1,600	-	
	Long-term benefits			
24p17(b)	Retirement benefits	123	5,116	
24p17(c)	Other long-term benefits	26	-	
24p17(e)	Share-based payments	150	4,833	
24Rp18(b)(i) PFRS7p15	Loans to directors and key management (and their families)			- Repayable monthly over 2 years
	Loan outstanding balance		490	- Unsecured and interest bearing at 6.3% per annum
	Loans advanced during the year	343		
	Loan repayments received	(49)		
	Interest charged	30		
	Interest received	(30)		

2418(b) In addition to the above amounts, the Group is committed to pay the members of the Executive Committee up to P1,250 in the event of a change in control of the Group.

[3] The standard defines "key management personnel" are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. Each entity will have to determine up to what level this term will cover, so long as the responsibilities enumerated in PAS 24 are met. The position or designation need not be identified nor the officer named in the disclosure. Only the totals of each category are required to be disclosed. Our local SEC does not know of any exemptions in the required disclosures. While paragraphs 29 and 30 of the Framework for PFRS contain definitions of materiality, the term is normally defined as one where the omission or misstatement is likely to influence the economic decisions of users. Please note the categories of compensation to be disclosed. If there are no such categories, the same should be stated.

Illustrative disclosure: Excess retained earnings

Guidance

Unreasonable accumulation of retained earnings of more than 100% of the paid in capital is considered a violation of Section 43 of the Corporation Code, in addition to possible exposure on improperly accumulated earnings tax (IAET). SEC defined paid in capital as the amount of outstanding capital stock and additional paid-in capital or premium paid over the par value of shares.

Enumerated in Section 4 of the Memorandum Circular are the justifications for the accumulation of profits in excess of 100% of the paid-in capital which should be indicated in the notes to financial statements to the extent applicable:

(a) when justified by definite corporate expansion projects or programs approved by the board of directors; or
(b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or
(c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. (Section 43(par. 2), Corp. Code)

Reconciliation of retained earnings available for dividend declaration (Annex 68-c)

To ensure compliance with this requirement, Revised SRC Rule 68 requires stock corporations whose retained earnings are in excess of 100% of their paid-up capital to submit to the SEC a Reconciliation of Retained Earnings Available for Dividend Declaration (Annex 68-C). Please refer to ACS Alert 2013-08 for a copy of the prescribed presentation of the schedule.

Illustrative note disclosure

Note XX - Retained earnings

Under the Corporation Code of the Philippines (the Code), stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-up capital stock except when justified by any of the reasons mentioned in the Code. In addition, pursuant to Bureau of Internal Revenue (BIR) Regulations No. 2-2001 (RR 2-2001), a tax equal to 10% of any improperly accumulated taxable income of corporations is imposed, except when a Corporation falls under any of the exempt corporations specified in RR 2-2001, such as publicly-held corporation or companies registered under special economic zones which enjoys special tax rates.15

At December 31, 2018, the Company’s retained earnings exceed its paid up capital of Pxxxx by Pxxxx. In a resolution by the Company’s Board of Directors on DATE, the Company has been given authority to use its excess surplus profits to reduce its loans instead of paying dividends to the shareholders and to fund additional capital expenditures during the first quarter of 2018.

Illustrative disclosure: Retirement benefit contribution (PIC Q&A 2013-03)

Note XX: Significant accounting policies - retirement benefit obligation

The Company maintains a defined contribution (DC) plan that covers all regular full-time employees. Under its DC plan, the Company pays fixed contributions based on the employees' monthly salaries. The Company, however, is covered under Republic Act (RA) No. 7641, The Philippine Retirement Law, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Company accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan.

For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting period. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Company determines the net interest expense (income) on the net DB liability (asset) for the period by applying the discount rate used to measure the DB obligation at the beginning of the annual period to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Note XX - Defined Contribution Employee Benefit

As discussed in Note x, the Company maintains a defined contribution (DC) plan which is accounted for as a defined benefit (DB) plan with minimum guarantee.

Following are the details of the Company's DB obligation for the DB minimum guarantee: (The Company should provide here the applicable disclosure requirements for DB plans under the amended PAS 19.)

Supplementary information required by the Bureau of Internal Revenue

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by Philippine Financial Reporting Standards.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Output value-added tax (VAT)
Output VAT declared for the year ended December 31, 2017 and the revenues upon which the same was based consist of:

	Gross amount of revenues	Output VAT
Subject to 12% VAT		
Sale of goods	XXX	XXX
Sale of services	XXX	XXX
Sale of property/equipment	XXX	XXX
Sale/lease of intangible property	XXX	XXX
Premiums (Non-life)	XXX	XXX
Storage and warehousing	XXX	XXX
	XXX	XXX
Zero-rated		
Sale of goods	XXX	XXX
Sale of services	XXX	XXX
Sale of property/equipment	XXX	XXX
Exempt		
Sale of goods	XXX	XXX
Sale of services	XXX	XXX
Sale of property/equipment	XXX	XXX
	XXX	XXX
Total	XXX	XXX

[To disclose legal basis for zero-rated sales/receipts and/or exempt sales/receipts, if any, e.g. "Zero- rated sales are sales of goods to PEZA-registered entities pursuant to (specify legal basis).]

[To disclose amount of gross sales / service income if different from gross receipts e.g. "The gross revenues shown above are based on gross receipts of the Company for VAT purposes while gross revenues in the statements of total comprehensive income are measured in accordance with the policy in Note 2.X."]

(ii) Input VAT
Movement in input VAT for the year ended December 31, 2017 follows:

Beginning balance	XXX
Add: Current year's domestic purchases/payments for:	
Goods for resale	XXX
Goods other than for resale or manufacture	XXX
Capital goods subject to amortization	XXX
Capital goods not subject to amortization	XXX
Services lodged under cost of goods sold	XXX
Services lodged under other accounts	XXX
Less: Claims for tax credit/refund and other adjustments	(XXX)
Ending balance	XXX

(iii) Importations
The total landed cost of imports and the amount of custom duties and tariff fees paid and accrued for the year ended December 31, 2017 follow:

Landed cost of imports	XXX
Customs duties and tariff fees	
Amount paid	XXX
Amount accrued	XXX
Total	XXX

(iv) Excise tax
Excise taxes paid and accrued for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Petroleum products	XXX	XXX	XXX
Tobacco products	XXX	XXX	XXX
Mineral products	XXX	XXX	XXX
Alcohol products	XXX	XXX	XXX
Automobiles and non-essential goods	XXX	XXX	XXX
Total	XXX	XXX	XXX

(v) Documentary stamp tax
Documentary stamp taxes paid and accrued for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Sales, agreements to sell, memoranda of sales	XXX	XXX	XXX
Deed of sale and conveyance of real property	XXX	XXX	XXX
Life insurance policies	XXX	XXX	XXX
Foreign bills of exchange and letters of credit	XXX	XXX	XXX
Original issuance of debt instruments	XXX	XXX	XXX
Others	XXX	XXX	XXX
Total	XXX	XXX	XXX

(vi) All other local and national taxes
All other local and national taxes paid and accrued for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Gross receipts tax	XXX	XXX	XXX
Premium tax (Life)	XXX	XXX	XXX
Municipal taxes	XXX	XXX	XXX
Real property tax	XXX	XXX	XXX
Mayor’s permit	XXX	XXX	XXX
Community tax	XXX	XXX	XXX
Others	XXX	XXX	XXX
Total	XXX	XXX	XXX

The above local and national taxes are lodged under Taxes and licenses account in operating expenses except for real property tax which is charged to Cost of sales. [To modify based on the line items upon which the above taxes have been charged]

(vii) Withholding taxes
Withholding taxes paid and accrued and/or withheld for the year ended December 31, 2017 consist of:

	Paid	Accrued	Total
Creditable withholding tax	XXX	XXX	XXX
Withholding tax on compensation	XXX	XXX	XXX
Expanded withholding tax	XXX	XXX	XXX
Fringe benefit tax	XXX	XXX	XXX
Final withholding tax	XXX	XXX	XXX
Total	XXX	XXX	XXX

(viii) Tax assessments
The Company received the following Final Assessment Notices (FAN):

Year	
2011	XXX
2010	XXX
	XXX

Taxable year 2014 is currently under investigation by the BIR. [To disclose open tax years; tax years under audit] The Company is contesting the above tax assessments. Management, based on consultation with the Company's legal counsel, believes that the final settlement, if any, would not adversely affect the Company's financial position or results of operations.

(ix) Tax cases
The outstanding tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR at December 31, 2017 consist of:

	Year	Nature	Amount
Court of Tax Appeals	2009	XXX	XXX
Local government unit	2010	XXX	XXX
Total			XXX

The Company is contesting the above tax cases. Management, based on consultation with the Company's legal counsel, believes that the final settlement, if any, would not adversely affect the Company's financial position or results of operations.