

SEC REGISTRATION NO. A200110402

**SBS PHILIPPINES CORPORATION**

(COMPANY'S FULL NAME)

**10 RESTHAVEN STREET  
SAN FRANCISCO DEL MONTE  
QUEZON CITY 1105**

(COMPANY'S ADDRESS)

**371 1111**

(TELEPHONE NUMBER)

**31 DECEMBER 2016**

(FISCAL YEAR END)

**SEC FORM 17-Q**

(FORM TYPE)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter period ended 31 MARCH 2017
2. SEC Identification Number A200110402 3. BIR Tax Identification No. 213-054-503
4. Exact name of issuer as specified in its charter SBS PHILIPPINES CORPORATION
5. PHILIPPINES Province, Country or other jurisdiction of  
incorporation or organization
6.  (SEC Use Only)  
Industry Classification Code:
7. 10 RESTHAVEN STREET, SAN FRANCISCO DEL MONTE, QUEZON CITY 1105  
Address of principal office Postal Code

8. (632) 371-1111  
Issuer's telephone number, including area code

9. Not applicable  
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding as of 31 March 2017
<u>COMMON SHARES</u>	<u>1,169,040,400 common shares,</u> ( Net of 30,959,600 treasury shares)

11. Are any or all of these securities listed on a Stock Exchange.

Yes [] No []

If yes, state the name of such stock exchange and the classes of securities listed therein:

PHILIPPINE STOCK EXCHANGE (PSE)

COMMON SHARES

2. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [  ]

No [  ]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [  ]

No [  ]

## PART I – FINANCIAL INFORMATION

### Item 1. Financial Statements.

Attached to this report as **Annex "A"** is the unaudited interim consolidated financial statements as of March 31, 2017 (with comparative audited figures as at December 31, 2016) and for the three-month periods ended March 31, 2017 and 2016 of SBS Philippines Corporation and its subsidiary and Selected Notes to the Financial Statements.

### Item 2. Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations.

The information required by Part III, Paragraph (A)(2)(b) of Annex C, as amended is hereto attached as **Annex "B"**.

## PART II – OTHER INFORMATION

### Outlook on Economic Position

The Company expects some price volatility for its commodity chemical products in 2017 on account of some production outages of chemical producers-manufacturers in Asia resulting to some supply disruptions which have the potential to drive current prices up. The Company however maintains a reasonable safety inventory position level and buffer to protect against such contingencies and mitigate the effects of such supply shortfalls.

There also remains a weakness of demand in the industrial sector as a result of the slowdown in mining operations but this is being compensated by stronger demand in the food industry.

This notwithstanding, the Company expects to show continued progress in its core business and deliver good profits through 2017 as it expands and diversifies its product portfolio. The Company aims to grow its volumes in the food and beverage, homecare and industrial segment in 2017.

The Company also intends to provide for diversified returns and generate attractive and sustainable additional income streams by pursuing investments in property related assets and expanding into property related businesses subject to shareholder approval

## Recent Events

In April 2017, the Company obtained a five year term loan of up to P2.5 billion to be used to bankroll purchases of property-related investments by the SBS group of companies in line with its diversification strategy to increase the property-related investments portfolio of the Group and provide for visible acquisition-driven growth.

Also in April 2017, the Company's Board of Directors approved and recommended for approval of the shareholders during the Annual Shareholders' Meeting to be held on June 9, 2017 for the conduct a stock rights offering of the unissued common shares of the Company ("Rights Issue") to be offered first to all existing shareholders of the Company. The Rights Issue will be undertaken within a period of 12 months from approval of the shareholders and shall be conditional to having obtained the prior approval of the Securities and Exchange Commission and Philippine Stock Exchange for the Rights Issue, with the size and terms of the stock rights offer to be determined and finalized by the Board of Directors, including the entitlement ratio, offer price, record date and specific uses of the proceeds of the Rights Issue.

On February 28, 2017 and April 21, 2017, respectively, the Board of Directors approved and recommended for shareholders' approval in its forthcoming Annual Shareholders' Meeting in June 2017 the following amendments to the Articles of Incorporation of the Company, to wit

- (a) Amendment of the Second Article of the Articles of Incorporation of the Company relative to the secondary purpose to diversify the business of the Company to include the holding, acquiring or participating in investments in property related assets as well as shares or interests in entities involved in property related businesses as and when the appropriate opportunities arise.
- (b) Amendment of the Seventh Article of the Articles of Incorporation of the Company to provide for the increase of the authorized capital stock of the Company by up to Five Billion Five Hundred Fifty Two Million Five Hundred Thousand Pesos (PhP 5,552,500,000.00), Philippine currency, divided into Five Billion Five Hundred Fifty Million (5,552,500,000) common shares with par value of One Peso (PhP 1.00) per share or with an aggregate par value of PhP 5,552,500,000.00 from One Billion Five Hundred Fifty Million Pesos (PhP 1,550,000,000.00), Philippine currency, divided into One Billion Five Hundred Fifty Million (1,550,000,000) common shares with par value of One Peso (PhP 1.00) per share; and to delegate to the Board of Directors the power and authority to: (a) determine the manner (either in one or more tranches) by which the proposed increase in the authorized capital stock of the Company will be implemented; and (b) the manner by which the increase in the authorized capital stock will be subscribed and paid for, such as, but not limited to, a stock rights offering, private placement transaction or public offering; and (ii) the delegation to the Board of Directors of the authority to file such applications and submit such documents with the Securities and Exchange Commission and other government agencies, as may be necessary to increase the authorize capital stock of the Company and amend the articles of incorporation of the Company.

Also in April 2017, the Board of Directors approved a new share buyback program with a volume of up to another P200 million. The new buyback program replaces the previous mandate which has already been fully expended. The share repurchases will be undertaken in the open market through the trading facilities of the Philippine Stock Exchange and will run from April 18, 2017 until the amount earmarked for the program has been fully utilized.

## SIGNATURES

Pursuant to the requirements of Securities and Exchange Commission, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in Quezon City of on 12 May 2017.

By:



**GERRY D. TAN**  
President & Chief Executive Officer



**AYLENE Y. SYTENGCO**  
Chief Financial Officer

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**

'(A Subsidiary of Anesy Holdings Corporation)  
**STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2017 AND DECEMBER 31, 2016**  
*(Amounts in Philippine Pesos)*

ANNEX A

	<u>Notes</u>	<u>March 31, 2017</u> <u>(Unaudited)</u>	<u>December 31, 2016</u> <u>(Audited)</u>
<b><u>A S S E T S</u></b>			
<b>CURRENT ASSETS</b>			
Cash in banks	1	<b>P 1,491,731,046</b>	P 1,383,113,717
Trade and other receivables	3	<b>160,944,403</b>	98,982,001
Inventories – net	1	<b>1,256,533,757</b>	1,313,141,596
Prepayments and other current assets	1	<b>135,913,696</b>	145,744,754
		<hr/>	<hr/>
Total Current Assets		<b>3,045,122,902</b>	2,940,982,068
<b>NON-CURRENT ASSETS</b>			
Property and equipment – net	6	<b>19,096,435</b>	20,417,671
Investment properties	7	<b>632,019,207</b>	632,019,207
Deferred tax assets – net		<b>4,521,287</b>	4,521,287
Investments in associates	5	<b>147,088,109</b>	147,964,483
Other non-current financial assets	4	<b>244,740,000</b>	244,740,000
		<hr/>	<hr/>
Total Non-current Assets		<b>1,047,465,038</b>	1,049,662,648
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>P 4,092,587,940</b>	P 3,990,644,716
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Short-term loans payable	9	<b>P 805,000,000</b>	P 467,500,000
Trade and other payables	8	<b>212,982,660</b>	307,100,775
Income tax payable		<b>373,738</b>	-
		<hr/>	<hr/>
Total Current Liabilities		<b>1,018,356,399</b>	774,600,775
<b>NON-CURRENT LIABILITY</b>			
Post-employment defined benefit obligation	1	<b>8,160,055</b>	8,160,055
		<hr/>	<hr/>
Total Liabilities		<b>1,026,516,454</b>	782,760,830
<b>EQUITY</b>			
Capital stock	12	<b>1,200,000,000</b>	1,200,000,000
Additional paid-in capital	1	<b>898,425,433</b>	898,425,433
Treasury shares	12	<b>(198948153.00)</b>	(29973840.00)
Revaluation reserves		<b>(4068878.10)</b>	(4068878.00)
Retained earnings	12	<b>1,170,663,084</b>	1,143,501,171
		<hr/>	<hr/>
Total Equity		<b>3,066,071,486</b>	3,207,883,886
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 4,092,587,940</b>	P 3,990,644,716

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>SALE OF GOODS</b>	10	<b>P 261,923,807</b>	P 250,776,151
<b>COST OF GOODS SOLD</b>	1	<u>194,799,108</u>	<u>183,000,127</u>
<b>GROSS PROFIT</b>		<u>67,124,699</u>	<u>67,776,024</u>
<b>OTHER OPERATING INCOME (EXPENSES)</b>			
Other operating expenses	1	<b>(316,262,090.00)</b>	(256,579,400.00)
Finance income (costs) - net	1	<b>1,578,655</b>	( 5,063,260 )
Other operating income	1	<u>-</u>	<u>26,998,394</u>
		<b>( 30,047,554 )</b>	<b>( 3,722,806 )</b>
<b>OPERATING PROFIT</b>		<b>37,077,145</b>	64,053,218
<b>EQUITY IN NET LOSSES OF ASSOCIATES</b>	5	<u>876,374</u>	<u>46,959</u>
<b>PROFIT BEFORE TAX</b>		<b>36,200,771</b>	64,006,259
<b>TAX EXPENSE</b>	1	<u>9,038,858</u>	<u>17,146,009</u>
<b>NET PROFIT</b>		<b>27,161,913</b>	46,860,250
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 27,161,913</b>	P 46,860,250
<b>EARNINGS PER SHARE - Basic and Diluted</b>	12	<b>P 0.02</b>	P 0.04



**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
*(A Subsidiary of Anesy Holdings Corporation)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016**  
*(Amounts in Philippine Pesos)*  
**(UNAUDITED)**

	<u>Capital Stock</u> <small>(see Note 12)</small>	<u>Additional</u> <u>Paid-in Capital</u>	<u>Treasury Shares</u> <small>(see Note 12)</small>	<u>Revaluation</u> <u>Reserves</u>	<u>Retained Earnings</u> <small>(see Note 12)</small>	<u>Total</u> <u>Equity</u>
<b>Group</b>						
Balance at January 1, 2017	P 1,200,000,000	P 898,425,433	(29,973,840)	( P 4,068,878 )	P 1,143,501,171	P 3,207,883,886
Acquisition of treasury shares	-	-	(168,974,313)	-	-	( 168,974,313 )
Total comprehensive income for the period	-	-	-	-	27,161,913	27,161,913
Balance at March 31, 2017	<b><u>P 1,200,000,000</u></b>	<b><u>P 898,425,433</u></b>	<b><u>(198,948,153)</u></b>	<b><u>(4,068,878)</u></b>	<b><u>P 1,170,663,084</u></b>	<b><u>P 3,066,071,486</u></b>
<b>Parent Company</b>						
Balance at January 1, 2016	P 1,200,000,000	P 898,425,433	P -	( P 3,720,185 )	P 176,381,185	P 2,271,086,433
Total comprehensive income for the period	-	-	-	-	46,860,250	46,860,250
Balance at March 31, 2016	<b><u>P 1,200,000,000</u></b>	<b><u>P 898,425,433</u></b>	<b><u>P -</u></b>	<b><u>(3,720,185)</u></b>	<b><u>P 223,241,435</u></b>	<b><u>P 2,317,946,683</u></b>

**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**

*(A Subsidiary of Anesy Holdings Corporation)*

**STATEMENTS OF CASH FLOWS**

**FOR THE PERIODS ENDED MARCH 31, 2017 AND 2016**

*(Amounts in Philippine Pesos)*

**(UNAUDITED)**

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before tax		<b>P 36,200,771</b>	P 64,006,259
Adjustments for:			
Interest expense		4,375,254	10,245,942
Dividend income		(3,411,064)	(3,411,064)
Depreciation and amortization	6	1,404,888	1,535,619
Share in net loss of associates	5	876,374	46,959
Interest income		(760,856)	(3,229,904)
Realized forex (gain)/loss		(259,587)	-
Unrealized forex (gain)/loss		(119,666)	(2,013,163)
Operating profit before working capital changes		38,306,115	67,180,648
Increase in trade and other receivables		(61,962,402)	(4,813,984)
Decrease in inventories		56,607,839	74,361,033
Decrease in prepayments and other current assets		9,831,058	11,155,310
Increase (decrease) in trade and other payables		(94,118,115)	72,497,759
Cash generated from (used in) operations		(51,335,505)	220,380,766
Cash paid for income taxes		(8,665,120)	-
Net Cash From (Used in) Operating Activities		<u>(60,000,625)</u>	<u>220,380,766</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash dividends received		3,411,064	3,411,064
Interest received		760,856	3,229,904
Acquisition of property and equipment	6	(83,652)	(105,844)
Acquisition of investment properties		-	(65,848)
Net Cash From Investing Activities		<u>4,088,267</u>	<u>6,469,276</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from availment of loans	9	<b>350,000,000</b>	100,000,000
Acquisition of treasury shares		<b>(168,974,313)</b>	-
Settlement of loans	9	<b>(12,500,000)</b>	(312,500,000)
Interest paid		<b>(4,375,254)</b>	(10,245,942)
Net Cash From (Used in) Financing Activities		<b><u>164,150,433</u></b>	<b><u>(222,745,942)</u></b>

**EFFECTS OF FOREIGN EXCHANGE RATE CHANGES**

<b>ON CASH IN BANKS</b>		<b><u>379,254</u></b>	<b><u>2,013,163</u></b>
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<b>NET INCREASE IN CASH IN BANKS</b>		<b>108,617,329</b>	6,117,264
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<b>CASH IN BANKS AT BEGINNING OF PERIOD</b>		<b><u>1,383,113,717</u></b>	<b><u>837,551,006</u></b>
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<b>CASH IN BANKS AT END OF PERIOD</b>		<b><u>P 1,491,731,046</u></b>	<b><u>P 843,668,270</u></b>
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**SBS PHILIPPINES CORPORATION AND SUBSIDIARY**  
**SELECTED NOTES TO THE FINANCIAL STATEMENTS**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**1.1 Basis of Preparation of Financial Statements**

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Group and the Parent Company (SBS Philippines Corporation) have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

As discussed in Note 1, SBS Holdings and Enterprises Corporation became a subsidiary of the Parent Company in 2016. Accordingly, starting 2016, the Group now prepares consolidated financial statements. The financial statements as of and for the year ended December 31, 2016 is the first consolidated financial statements of the Group. Because the Parent Company has no subsidiary prior to 2016, the statement of financial position as of December 31, 2015 and the statements of comprehensive income, statements of changes in equity and statements of cash follows for the years ended December 31, 2015 and 2014 is that of the Parent Company only.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

*(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

*(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Company are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

## **1.2 Adoption of New and Amended PFRS**

### *(a) Effective in 2017 that are Relevant to the Group*

The Group adopted for the first time the following amendment and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses of

Discussed below and in the succeeding page are the relevant information about these amendments and improvements.

- (i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.
- (ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(b) *Effective Subsequent to 2017 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

- (i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
  - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

- (ii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*, effective January 1, 2018. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Relative to the adoption of PFRS 15 in the Philippines, the FRSC also approved the issuance of Philippine Interpretations Committee Question & Answer No. 2016-14, *Application of PFRS 15, “Revenue from Contracts with Customers.” on Sale of Residential Properties under Pre-completion Contracts*, which provides that sales of residential properties under pre-completion stage can be recognized over time until completion of construction.

Management is currently assessing the impact of this standard on the Group’s financial statements.

- (iii) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases “on-balance sheet” by recognizing a “right of use” asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the “right-of-use” asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to as financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee’s benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

- (iv) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

### **1.3 Basis for Consolidation**

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiary, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expense and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiary are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

A subsidiary is an entity (including a structured entity) over which the Parent Company has control. The Parent Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A Subsidiary is consolidated from the date the Parent Company obtains control.

The Parent Company reassess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control indicated above. Accordingly, entities are deconsolidated from the date that such control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owner of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss as gain (see Note 2.4).

Associates are those entities over which the Company is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investment in associates are initially recognized at cost and subsequently accounted for using the equity method.

All subsequent changes to the ownership interest in the equity of the associate are recognized in the Company's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited or charged against the Equity in Net Earnings or Losses of an Associate account in profit or loss.

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Company, as applicable. However, when the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distributions received from the associate are accounted for as a reduction of the carrying value of the investment.

#### ***1.4 Business Combination***

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## **1.5 Financial Assets**

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

### *(a) Classification and Measurement of Financial Assets*

Financial assets other than those designated and effective as hedging instruments are classified into loans and receivables and held-to-maturity (HTM) investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss. A more detailed description of the categories of financial assets is as follows:

(i) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the end of each reporting period, which are classified as non-current assets.

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents and Trade and Other Receivables in the statement of financial position. Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(ii) *HTM Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. If the Group were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to available-for-sale (AFS) financial assets. HTM investments are included under the Other Non-current Financial Assets in the statement of financial position, except those maturing within 12 months from end of the reporting period, which are presented as part of current assets. The Group currently holds government and corporate bonds designated into this category.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(b) *Impairment of Financial Assets*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. The Group recognizes impairment if there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at cost has been incurred, the amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

*(c) Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income (Costs) – net account in the statement of comprehensive income.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

*(d) Derecognition of Financial Assets*

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## **1.6 Inventories**

Inventories are valued at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. The cost of merchandise inventories include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

NRV is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

## **1.7 Prepayments and Other Current Assets**

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period or in the normal operating cycle of the business, if longer, are classified as non-current assets.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. (see Note 2.16).

### **1.8 Property and Equipment**

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	13 years
Transportation and other equipment	5 years
Furniture and fixtures	3 years

Amortization of leasehold improvements is recognized over their estimated useful life of 13 years, regardless of the term of the lease as management believes that it is probable that the Group will renew the lease agreement for the warehouses where the property and equipment and the office are located, for a period of item that may extend beyond the current lease term [see Note 3.1(e)].

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

An item of property and equipment, including the related accumulated depreciation and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### **1.9 Investment Properties**

Investment property is property held for capital appreciation but not for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes.

Investment properties are accounted for under the cost model and are measured initially at acquisition cost. The cost of the asset is comprised of its purchase price and directly attributable costs of preparing the asset for its intended use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

An item of investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

### ***1.10 Financial Liabilities***

Financial liabilities, which include Trade and Other Payables (excluding tax-related liabilities) and Loans Payable, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liability are recognized as an expense in profit or loss under the caption Finance Income (Costs) – net in the statement of comprehensive income.

Loans payable and trust receipts payable (presented as part of Trade and Other Payables) were raised for working capital requirements. Finance charges are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that these are not settled in the period in which they arise.

Trade and other payables are initially recognized at their fair value and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the end of the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***1.11 Offsetting Financial Instruments***

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Group currently has legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

### ***1.12 Provisions and Contingencies***

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

### ***1.13 Revenue and Expense Recognition***

Revenue comprises revenue from sale of goods measured by reference to the fair value of consideration received or receivable by the Group, excluding value-added tax (VAT), rebates and trade discounts, if any.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that the economic benefits will flow to the Group; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue is recognized:

- (a) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer, which generally coincides with the delivery of the goods sold.
- (b) *Interest income* – This is recognized as the interest accrues taking into account the effective yield on the asset.
- (c) *Dividend income* – Revenue is recognized when the Group's right to receive payment is established.

Cost and expenses are recognized in profit or loss upon receipt of goods or utilization services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18).

## **1.14 Leases**

### *(a) Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset is classified as operating leases. Operating lease payments are recognized as expense in the profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

### *(b) Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## **1.15 Foreign Currency Translation and Transactions**

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income as part of profit or loss from operations.

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

The Group's property and equipment, investment properties, investments in associates and other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

### ***1.17 Employee Benefits***

The Group provides post-employment benefits to employees through a defined benefit plan and defined contribution plan which are recognized as follows:

#### *(a) Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. The Group's defined post-employment covers all regular full time employees.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of zero coupon government bonds as published by Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Finance Costs account in profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

#### *(b) Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

### ***1.18 Borrowing Costs***

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

### ***1.19 Income Taxes***

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred 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 provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The Group establishes liabilities for probable and estimable assessments by the BIR resulting from any known tax exposures. Estimates represent a reasonable provision for taxes ultimately expected to be paid and may need to be adjusted over time as more information becomes available.

### ***1.20 Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's management committee; its chief operating decision-maker. The management committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's revenue sources as disclosed in Note 26, which represent the main revenue sources provided by the Group.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements, except that the post-employment benefit expense is not included in the calculation of the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

### ***1.21 Related Party Transactions and Relationships***

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group 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 the legal form.

### ***1.22 Equity***

Capital stock represents the nominal value of shares that have been issued.

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

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise gains and losses due to the revaluation of AFS financial assets and remeasurements of post-employment defined benefit plan.

Retained earnings, the appropriated portion of which is not available for distribution, represent all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income.

### ***1.23 Earnings per Share***

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the Group by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. As of December 31, 2016 and 2015, the Group does not have dilutive potential shares outstanding; hence, the diluted earnings per share is equivalent to the basic earnings per share.

### ***1.24 Events After the End of the Reporting Period***

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

## **2. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Group's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates.

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

*(a) Classifying Financial Assets as HTM Investments*

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as preferred shares, as HTM investments, the Group evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances as allowed under the applicable PFRS, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost. The Group sold a portion of its HTM investments in 2015. Management deemed that the transaction is not significant in order for the full amount of investments to be reclassified out of HTM (see Note 7).

*(b) Determining Significant Influence over an Entity in which the Company holds less than 20% Ownership*

The Company determines whether significant influence exists in investment where the Company holds less than 20% ownership interest over the investee. The Company considers the ability to influence the operating and financial policies of the investee, representation on the board of directors of the investee and routine participation in management decisions in making judgment.

Based on management's judgment, even with 17% ownership over I Bonding Holdings Corporation (IBHC) as of December 31, 2016, the Company considers IBHC as an associate due to the presence of significant influence, but not control, over IBHC's operations since the Company's Chairman of the BOD is also a director of IBHC (see Note 8).

*(c) Distinguishing Investment Properties and Owner-managed Properties*

The Group determined that its parcels of land qualify as investment properties. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash-flows that are attributable not only to the property but also to other assets used in the Group's main line of business. Based on management's assessment, the properties qualify as investment properties.

*(d) Distinguishing Operating and Finance Lease*

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreement. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, such leases were determined to be operating leases.

*(e) Amortizing Leasehold Improvements*

The Group amortizes leasehold improvements over the estimated useful life of the improvements regardless of the term of the lease because management believes that it is probable that the Group will renew the lease agreement for the warehouses where it operates for a period of time that will extend beyond the current term of the lease.

*(f) Recognizing Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions and contingencies are presented in Note 21.

### **3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

*(a) Estimating Impairment of Trade and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the customers and counterparties, the customers' and counterparties' current credit status, average age of accounts, collection experience and historical loss experience.

Management determined that no impairment loss on trade and other receivables should be recognized for the years ended December 31, 2016, 2015 and 2014 based on its assessment of the collectability of the accounts (see Note 5).

*(b) Determining NRV of Inventories*

In determining the NRV of inventories, management takes into account the most reliable evidence available at the times the estimates are made. It also takes into consideration the obsolescence of the inventory in determining NRV. The future realization of the carrying amounts of inventories as disclosed in Note 6 is affected by price changes in different market segments. These aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next reporting period. Management believes that Group's inventories are properly valued at lower of cost and NRV as of December 31, 2016 and 2015.

*(c) Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the 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 due to physical wear and tear and legal or other limits on the use of the assets.

The carrying amounts of property and equipment are presented in Note 10. Based on management's assessment as at December 31, 2016 and 2015, there is no change in the estimated useful lives of those assets during those periods. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

*(d) Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There were no impairment losses recognized on non-financial assets for the years ended December 31, 2016, 2015 and 2014 based on management's assessment.

*(e) Fair Value Measurement of Investment Properties*

Investment properties are measured using the cost model. The fair value disclosed in Note 11 to the financial statements as determined using market comparable approach reflects the recent transaction prices for similar properties in nearby locations adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation is the price per square meter, hence, the higher the price per square meter, the higher the fair value. The Company engages services of professional and independent appraisers applying the relevant valuation methodologies.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

*(f) Valuation of Post-employment Defined Benefit Obligation*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment defined benefit obligation and expense, an analysis of the movements in the estimated present value of post-employment defined benefit obligation and assumptions used are presented in Note 17.2.

(g) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management has assessed that the amount of tax benefits from its future deductible differences which is recognized as deferred tax assets as at December 31, 2016 and 2015 will be fully utilized subsequently. The carrying value of deferred tax assets is disclosed in Note 19.

### 3. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	March 31, 2017	December 31, 2016
Trade receivables	<b>P 148,327,980</b>	P 85,983,587
Other receivables	<u>12,616,423</u>	<u>12,998,414</u>
	<u><b>P 160,944,403</b></u>	<u>P 98,982,001</u>

Trade receivables are usually due within 30 to 60 days and do not bear any interest. All of the Group's trade and other receivables have been reviewed for indicators of impairment. Based on management's assessment, no impairment loss should be recognized for the periods ended March 31, 2017 and December 31, 2016, respectively.

### 4. HELD-TO-MATURITY INVESTMENTS

HTM investments amounting to P244.7 million acquired in 2014 pertain to cumulative, non-voting, class "B" series preferred shares listed in the PSE, which bear fixed interest rate of 5.58% per annum and will mature on November 5, 2024. Aside from the maturity date, these investments have an optional redemption date on November 5, 2019 and on any dividend payment date thereafter.

In 2016 and 2015, the Group received dividend income amounting to P10.2 million and P10.3 million, respectively, from its HTM investments (see Note 16). No dividend income was received in 2014.

In 2015, the Parent Company sold an insignificant portion of HTM investments amounting to P5.3 million resulting to gain on sale of P0.3 million which is presented as part of the Others – net under the Finance Income (Costs). Accordingly, the sale did not constitute to tainting as defined under PAS 39.

## 5. INVESTMENT IN ASSOCIATES

The components of the carrying values of investments in associates accounted for under the equity method are as follows:

	% of Interest Held	<b>March 31, 2017</b>	December 31, 2016
LakerfieldPhils. Holding Corp. (LPHC)	37.0%	<b>P 56,174,542</b>	P 56,340,763
Cleon Phils. Holding Corporation (CPHC)	37.3%	<b>46,219,940</b>	46,224,648
Ayschester Holdings Corporation (AHC)	25.0%	<b>35,830,911</b>	36,424,652
I Bonding Holdings Corp (IBHC)	17.0%	<u><b>8,862,716</b></u>	<u>8,974,420</u>
		<u><b>P 147,088,109</b></u>	<u>P 147,964,483</u>

A reconciliation of the carrying amounts of investments in associates at the beginning and end of the periods of March 31, 2017 and December 31, 2016 is shown below:

	<b>March 31, 2017</b>	December 31, 2016
Balance at beginning of year	<b>P 147,964,483</b>	P 18,113,172
Additions	-	152,012,500
Disposals	-	( 18,113,172 )
Equity in net losses	<u><b>( 876,374 )</b></u>	<u>( 4,048,017 )</u>
	<u><b>P 147,088,109</b></u>	<u>P 147,964,483</u>

At present, the Parent Company's management believes that it does not have effective control over the investee companies but significant influence only. Consequently, the Parent Company accounted for its investment on the investee companies under the equity method. In 2016, the Parent Company recognized its share in the net losses of the Investee companies in the total amount of P4.0 million and is presented as Equity in Net Losses of Associates in the 2016 statement of comprehensive income.

The total amount of the assets, liabilities, expenses and net loss of these investee companies are reported as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Expenses</u>	<u>Net Loss</u>
<b>March 31, 2017</b>				
AHC	P 460,744,985	P 315,639,657	P 3,393,574	P 2,374,964
CPHC	124,350,827	1,506	20,000	12,656
LPHC	405,141,711	255,503,950	641,777	449,244
IBHC	142,712,245	90,196,795	938,918	657,084
December 31, 2016				
AHC	P 458,337,967	P 312,639,357	P 9,301,390	P 9,301,390
CPHC	124,368,906	590,466	906,986	906,986
LPHC	467,758,494	315,486,163	2,727,668	2,727,668
IBHC	174,803,053	122,012,349	2,209,296	2,209,296

## 6. PROPERTY AND EQUIPMENT

The gross carrying amounts and the accumulated depreciation and amortization of property and equipment at the beginning and end of the reporting periods are shown below.

	<u>Leasehold Improvement</u>	<u>Transportation and Other Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
March 31, 2017				
Cost	P 6,842,022	P 45,470,138	P 4,536,724	P 56,848,884
Accumulated depreciation and amortization	( <u>3,216,233</u> )	( <u>30,719,518</u> )	( <u>3,816,698</u> )	( <u>37,752,450</u> )
Net carrying amount	<u>P 3,625,789</u>	<u>P 14,750,620</u>	<u>P 720,026</u>	<u>P 19,096,435</u>
December 31, 2016				
Cost	P 6,842,022	P 45,465,986	P 4,457,224	P 56,765,232
Accumulated depreciation and amortization	( <u>3,090,017</u> )	( <u>29,501,313</u> )	( <u>3,756,231</u> )	( <u>36,347,561</u> )
Net carrying amount	<u>P 3,752,005</u>	<u>P 15,964,673</u>	<u>P 700,993</u>	<u>P 20,417,671</u>
December 31, 2015				
Cost	P 6,744,206	P 34,752,279	P 4,256,754	P 45,753,239
Accumulated depreciation and amortization	( <u>2,559,738</u> )	( <u>24,365,677</u> )	( <u>3,304,658</u> )	( <u>30,230,073</u> )
Net carrying amount	<u>P 4,184,468</u>	<u>P 10,386,602</u>	<u>P 952,096</u>	<u>P 15,523,166</u>

A reconciliation of the carrying amounts of property and equipment at the beginning and end of the reporting periods is shown in the succeeding page.

	<u>Leasehold Improvement</u>	<u>Transportation and Other Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
Balance at January 1, 2017				
net of accumulated depreciation				
and depreciation	P 3,752,005	P 15,964,673	P 700,993	P 20,417,671
Additions	-	4,152	79,500	83,652
Depreciation and amortization				
changes for the period	( <u>131,577</u> )	( <u>1,212,844</u> )	( <u>60,467</u> )	( <u>1,404,888</u> )
Balance at March 31, 2017,				
net of accumulated depreciation				
and depreciation	<u>P 3,620,428</u>	<u>P 14,755,981</u>	<u>P 720,026</u>	<u>P 19,096,435</u>
Balance at January 1, 2016,				
net of accumulated depreciation				
and depreciation	P 4,184,468	P 10,386,602	P 952,096	P 15,523,166
Additions	97,816	10,713,707	200,470	11,011,993
Depreciation and amortization				
changes for the period	( <u>530,279</u> )	( <u>5,135,636</u> )	( <u>451,573</u> )	( <u>6,117,488</u> )
Balance at December 31, 2016,				
net of accumulated depreciation				
and depreciation	<u>P 3,752,005</u>	<u>P 15,964,673</u>	<u>P 700,993</u>	<u>P 20,417,671</u>

For the periods ended March 31, 2017 and December 31, 2016, depreciation and amortization is presented under Other Operating Expenses in the statements of comprehensive income.

As of March 31, 2017 and December 31, 2016, the gross amount of the Company's fully depreciated and amortized property and equipment that are still in use is P21.6 million and P21.3 million, respectively.

## 7. INVESTMENT PROPERTIES

The Group's investment properties represent parcels of land held for investment and capital appreciation but not for sale in the ordinary course of business, or use in the production or supply of goods or services or for administrative purposes.

A reconciliation of the carrying amount of investment properties at the beginning and end of March 31, 2017 and December 31, 2016 is shown in the succeeding page.

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Balance at beginning of year	<b>P 632,019,207</b>	P 955,287,542
Disposals	<u>-</u>	( <u>323,268,335</u> )
Balance	<b><u>P 632,019,207</u></b>	<b><u>P 632,019,207</u></b>

Rental revenues earned by the Company previously from incidental lease and sub-lease arrangements amounting to P8.4 million for the period ended December 31, 2016, were presented as Other Operating Income in the statements of comprehensive income. There was no posted rental income as of March 31, 2017 as the lease arrangements of the Company on its properties were no longer continued in 2017 as a result of changes in the business requirements of its contract parties.

The real property tax on investment properties amounting to P0.7 million for the periods ended December 31, 2016 was recognized and presented as part of Taxes and licenses under Other Operating Expenses in the statements of comprehensive income.

In May 2016, the Group sold certain investment properties with carrying amount of P323.3 million for a total consideration of P1.1 billion. The resulting gain on sale of investment properties, net of taxes and other direct costs of disposal, amounted to P826.3 million and is part of Gain on Sale of Investment Properties and an Associate account in the statement of comprehensive income for the year ended December 31, 2016.

The carrying amount of investment properties as of March 31, 2017 are used as collateral to secure certain long-term loans from local banks (see Note ). However, in 2016, the investment properties are released as collateral due to the repayment by the Company of the related loans.

As determined by independent and SEC-accredited property appraisers, the fair market values of these investment properties as of March 31, 2017 and December 31, 2016 amounted to P2.1 billion.

The Group's management believes that the investment properties are not impaired as the fair value of these properties as of the end of the reporting periods exceeds their carrying amount as reported in the statements of financial position.

## 8. TRADE AND OTHER PAYABLES

This account consists of:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Trust receipts payable	<b>P 142,509,854</b>	P 226,307,624
Accrued expenses	<b>38,210,713</b>	40,201,507
Trade payables	<b>14,241,783</b>	22,953,468
Security deposits and advance rentals	<b>810,935</b>	2,684,457
Others	<u>17,209,375</u>	<u>14,953,719</u>
	<b><u>P 212,982,660</u></b>	<b><u>P 307,100,775</u></b>

Accrued expenses and other payables include the obligations relating to the accrual of professional fees, rentals, employee benefits and other liabilities that are expected to be settled within 12 months from the end of the reporting period.

The Group avails of trust receipt facilities with local banks that were used to finance its purchases of inventories. These short-term trust receipts, which are secured by the related inventories, bear interests based on prevailing market interest rates, usually ranging from 2.5% to 4.5% in periods ended March 31, 2017 and December 31, 2016.

Interest expense incurred on these transactions for the periods ended March 31, 2017 and 2015 amounted to P1.3 million and P0.7 million, respectively, and is presented as part of Interest expense under Finance Costs – net in the statements of comprehensive income. There is no unpaid interest as of March 31, 2017 and December 31, 2016.

## 9. LOANS PAYABLE

This account includes the following as at March 31, 2017 and December 31, 2016.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current	<b>P 805,000,000</b>	P 467,500,000
Non-current	<u>-</u>	<u>-</u>
Balance	<b><u>P 805,000,000</u></b>	<b><u>P 467,500,000</u></b>

A reconciliation of the movements in the amount of loans payable at the beginning and end of March 31, 2017 and December 31, 2016 as follows.

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Balance at beginning of year	<b>P 467,500,000</b>	P 1,367,500,000
Availments	<b>350,000,000</b>	520,000,000
Settlements made	<b>( 12,500,000 )</b>	<b>( 1,420,000,000 )</b>
	<b><u>P 805,000,000</u></b>	<b><u>P 467,500,000</u></b>

For the current and prior years, the Group obtained secured and unsecured, short-term and long-term interest-bearing loans from local banks. These loans were subject to annual interest rates ranging from 1.1% to 4.25% for periods ended March 31, 2017 and December 31, 2016 and the proceeds from which were used for working capital requirements.

Interest expense incurred on these loans for the periods ended March 31, 2017 and 2016 amounted to P3.1 million and P9.5 million, respectively, and is presented as part of Interest expense under Finance Costs – net in the statements of comprehensive income. There is no unpaid interest as of March 31, 2017 and 2016.

## 10. RELATED PARTY TRANSACTIONS

The Group's related parties include companies under common ownership and its key management personnel. The transactions with these related parties are discussed below.

	Notes	Amount of Transactions		Outstanding Balances Receivables (Payables)	
		March 31, 2017	March 31, 2016	March 31, 2017	December 31, 2016
<b>Related Parties Under</b>					
<b>Common Ownership</b>					
Sale of goods	10.1	P -	P 71,915	P -	P 4,499,053
Advances granted	10.2	-	-	-	-
Advances obtained (paid)	10.2	-	-	-	-
Lease agreements	10.4	8,300,692	3,880,299	-	2,593,058
Business & management services	10.5	498,000	498,000	-	-
Equity investments in affiliate companies	10.8	876,374	46,959	147,088,109	147,964,483
<b>Key management (personnel)</b>					
Fees paid	10.6	1,730,267	1,561,285	-	-
Advances obtained	10.4	-	-	-	-

Based on management's assessment, receivables from related parties are not impaired as of March 31, 2017 and December 31, 2016.

### 10.1 Sale of Goods

For the periods ended March 31, 2017 and 2016, the Group sold goods to Baler Industrial Corporation, a related party under common ownership, and to an entity owned by the Company's shareholder and Board Chairman, which is presented as part of Sale of Goods in the statements of comprehensive income. The outstanding receivable arising from this transaction as at March 31, 2017 and December 31, 2016 is presented as part of Trade receivables under the Trade and Other Receivables account in the statements of financial position (see Note 3).

### 10.2 Advances to Related Parties

In 2015, the Group granted noninterest-bearing and unsecured advances to certain related parties under common ownership for working capital requirements. These advances have no repayment terms and are due and payable on demand. In 2015, the Group entered into an assignment of its receivables and offsetting arrangement with related parties wherein the balance of the Group's advances to its affiliates were assigned in payment and set-off against the equivalent amount of the Group's advances from its shareholder and Board Chairman.

There was no movement on the advance to related parties during first three months of 2017.

### ***10.3 Advances from Related Parties Under Common Ownership***

In 2015, 2014 and 2013, the Group obtained noninterest-bearing and unsecured advances from its related parties under common ownership for working capital requirements. These advances are due and payable on demand.

There are no outstanding liability from these transactions as of March 31, 2017.

### ***10.4 Lease Agreements***

The Group, as a lessee, entered into an operating lease agreement with Canon Realty and Development Corp., Aneco Realty and Development Corp, Anase Realty and Enterprises Corporation, Everfield Holdings Corporation all related parties under common ownership, and its Chairman of the Board of Directors, covering certain warehouses with an average term of one to three years.

Rental expense for the periods ended March 31, 2017 and 2016 arising from the foregoing lease agreements is shown as Rentals under Other Operating Expenses in the statements of comprehensive income (see Notes 13.2). Outstanding liability arising from these transactions as of March 31, 2017 and December 31, 2016 is shown as part of Accrued expenses and other payables under Trade and Other Payables in the statements of financial position (see Note 9).

### ***10.5 Shared Business and Management Services***

In 2015, the Parent Company entered into a service agreement with its related parties under common ownership wherein the latter shall provide certain operational, management and administrative services for a fee.

Management fees charged by the Parent Company are recognized as part of Others- net under the Finance Income (Costs) – net account in the statements of comprehensive income (see Note 14)

### ***10.6 Advances from and Payments to Key Management Personnel***

Payments received by key management personnel pertain to service fees for the periods ended March 31, 2017 and 2016, which is presented as part of Professional fees under Other Operating Expenses in the statements of comprehensive income. The outstanding liability on these services is presented as part of Accrued expenses and other payables under the Trade and Other Payables account in the statements of financial position (see Note 9).

In 2014, the Parent Company has obtained noninterest-bearing and unsecured advances from its shareholder and Chairman of the Board for working capital requirements. These advances have no repayment terms and are due and payable on demand. A portion of these advances were paid by way of an assignment of the Parent Company of its receivables from its affiliates for set-off against the Parent Company's payables to the shareholder and Chairman of the Board under an assignment in payment arrangement. The outstanding liability from these advances is presented as part of Advances from Related Parties in the statements of financial position. There were no new advances obtained in periods ended March 31, 2017 and December 31, 2016.

In prior years, the Group has availed of various credit line facilities in which credit availments were subject to cross suretyship arrangements including its shareholder-directors and continuing surety arrangement of shareholder and Chairman of the Board. The Group did not record the fair value of the guarantee liability because of the low probability of default in paying the borrowings.

As of March 31, 2017, there were no existing cross surety arrangements between the Group and any of its related parties (see Note ).

### ***10.7 Cross Corporate Guarantee***

In consideration of the group credit lines made available by its bankers to the Company, certain of its affiliates and shareholder-director, the Company, the said affiliates and shareholder-director have agreed to cross-guarantee each other's obligation for short term loans obtained under the group credit facility (see Note 14.3). The Company's management assessed that the fair value of the guarantee liability, if any, is not significant to the financial statements. The cross guarantees issued by the Company to secure the bank obligations of such affiliates and shareholder-director were all terminated in March 2015 and ceased to have any effect.

### ***10.8 Equity investments in affiliate companies***

In 2016, the Company has subscribed to new shares (based on par value) for a minority ownership stake in affiliate investment holding companies that have been set up to serve as vehicles for investment in real estate assets. These "co-investment" rights of the Company involve a 37% shareholding interests in Lakerfield Philippine Holdings Corp., 25% shareholding interests in Ayschester Holdings Corp., 37.25% shareholding interests in Cleon Phils. Holdings Corp., and 17% shareholding interests in I Bonding Holdings Corporation, for a total investment of P151.9 million. These share subscriptions were in line with its investment strategy to have a more diversified interests in different property holdings at a lower capital requirement and risk exposure to the Company.

## **11. SEGMENT REPORTING**

### ***11.1 Business Segments***

The Group's operating businesses are organized and managed separately according to the nature of products and services provided. In identifying its reportable operating segments, management generally follows the Company's three main revenue sources, which represent the products and services provided by the Company, namely Sale of Goods, Rental Income and Investment Income. As of December 31, 2016, lease contracts have ended and there was no posted rental income as of March 31, 2017.

## 11.2 Analysis of Segment Information

The following tables present revenue and profit information regarding business segments of the Group for the periods ended March 31, 2017 and 2016:

March 31, 2017					
	Sale of Goods	Rental Income	Investment Income	Total	
Revenues	P 261,923,807	P -	P 3,411,064	P 265,334,871	
Cost	<u>194,799,108</u>	<u>-</u>	<u>-</u>	<u>194,799,108</u>	
	<u>67,124,699</u>	<u>-</u>	<u>3,411,064</u>	<u>70,535,763</u>	
Other Operating Expenses					
Salaries and wages	7,169,006	-	-	7,169,006	
Outside services	3,120,842	-	-	3,120,842	
Transportation & travel	1,062,140	-	-	1,062,140	
Insurance	1,301,740	-	-	1,301,740	
Advertising and promotions	1,356,650	-	-	1,356,650	
Commission	<u>466,776</u>	<u>-</u>	<u>-</u>	<u>466,776</u>	
	<u>14,477,154</u>	<u>-</u>	<u>-</u>	<u>14,477,154</u>	
<b>Segment profit before depreciation and amortization</b>	<b><u>P 52,647,545</u></b>	<b><u>P -</u></b>	<b><u>P 3,411,064</u></b>	<b><u>P 56,058,609</u></b>	

March 31, 2016					
	Sale of Goods	Rental Income	Investment Income	Total	
Revenues	P 250,776,151	P 26,998,394	P 3,411,064	P 281,185,609	
Cost	<u>183,000,127</u>	<u>743,368</u>	<u>-</u>	<u>183,743,495</u>	
	<u>67,776,024</u>	<u>26,255,026</u>	<u>3,411,064</u>	<u>97,442,114</u>	
Other Operating Expenses					
Salaries and wages	5,508,669	-	-	5,508,669	
Outside services	1,406,860	-	-	1,406,860	
Transportation & travel	1,348,834	-	-	1,348,834	
Insurance	1,278,359	-	-	1,278,359	
Advertising and promotions	38,000	-	-	38,000	
Commission	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	<u>9,580,722</u>	<u>-</u>	<u>-</u>	<u>9,580,722</u>	
Segment profit before depreciation and amortization	<b><u>P 58,195,302</u></b>	<b><u>P 26,255,026</u></b>	<b><u>P 3,411,064</u></b>	<b><u>P 87,861,392</u></b>	

Shown in the succeeding page is the Group's reconciliation of the components of reportable segments for first three months to the statement of comprehensive income:

	<u>2017</u>	<u>2016</u>
Revenues:		
Total revenues of reportable segments	<u>P 265,334,871</u>	<u>P 281,185,609</u>
Costs and expenses		
Total costs and expenses of reportable segments	209,276,261	193,324,217
Other costs and expenses from non-reportable segments	16,620,542	13,845,190
Depreciation and amortization	<u>1,404,888</u>	<u>1,535,619</u>
	<u>227,301,691</u>	<u>208,705,026</u>
Finance costs - net	<u>1,832,409</u>	<u>8,474,324</u>
<b>Profit before tax</b>	<u><b>P 36,200,771</b></u>	<u><b>P 64,006,259</b></u>

The results of operations from the three segments are used by management to analyze the Group's operation and to allow them to control and study the costs and expenses. It is also a management indicator on how to improve the Group's operation.

Expenses are allocated through direct association of costs and expenses to operating segments.

## 12. EQUITY

### 12.1 Capital Stock

Capital stock consists of common shares with details as follows:

	<u>Shares</u>		<u>Amount</u>	
	<u>March 31, 2017</u>	December 31, 2016	<u>March 31, 2017</u>	December 31, 2016
Authorized - P1 per value				
Balance at beginning of year	1,550,000,000	1,550,000,000	<b>P 1,550,000,000</b>	P 1,550,000,000
Increase during the period	-	-	-	-
Change due to decrease in par value	-	-	-	-
Balance at end of period	<u>1,550,000,000</u>	<u>1,550,000,000</u>	<u><b>P 1,550,000,000</b></u>	<u>P 1,550,000,000</u>
Issued and outstanding				
Balance at beginning of period	1,200,000,000	1,200,000,000	<b>P 1,200,000,000</b>	1,200,000,000
Issuance during the period:				
Collection of subscriptions receivable	-	-	-	-
Issuance of shares	-	-	-	-
Change due to decrease in par value	-	-	-	-
Treasury shares	( 30,957,200 )	( 5,454,400 )	( 198,948,153 )	( 29,973,840 )
Balance at end of period	<u>1,169,042,800</u>	<u>1,194,545,600</u>	<u><b>P 1,001,051,847</b></u>	<u>P 1,170,026,160</u>
Subscribed:				
Balance at beginning of period	1,200,000,000	1,200,000,000	<b>P 1,200,000,000</b>	P 1,200,000,000
Additional subscription during the period	-	-	-	-
Change due to decrease in par value	-	-	-	-
Balance at end of period	<u>1,200,000,000</u>	<u>1,200,000,000</u>	<u><b>P 1,200,000,000</b></u>	<u>P 1,200,000,000</u>
Subscription receivable:				
Balance at beginning of period			<b>P -</b>	P -
Additions during the period			-	-
Collections during the period			-	-
Balance at end of period			<u><b>P -</b></u>	<u>P -</u>
			<u><b>P 1,200,000,000</b></u>	<u>P 1,200,000,000</u>

On March 5, 2015, Anesy subscribed to additional 353,000,000 common shares of the Parent Company which it fully paid by virtue of the conversion of its P350,000,000 advances to the Parent Company into common shares and the remaining balance paid in cash by Anesy to the Parent Company.

On April 8, 2015, the Parent Company applied for the registration of its common shares with the SEC and the listing of the Parent Company's shares on the PSE. The SEC approved the registration of the 1,200,000,000 common shares of the Parent Company on July 16, 2015 and the PSE approved the Parent Company's application for the listing of its common shares on July 23, 2015.

On August 10, 2015, a total of 1,200,000,000 common shares of the Parent Company with par value of P1 per share were listed under the Main Board of the PSE. In addition, by way of an initial public offering (IPO), the Parent Company sold 420,000,000 shares of its common stock at an offer price of P2.75 per Offer Share on the same day. The IPO resulted to recognition of additional paid-in capital amounting to P698.4 million, net of IPO-related expenses amounting to P36.6 million.

The change in the number of authorized number of shares of the Parent Company in 2014 was due to decrease in the par value from P100 per share to P1.00 per share as a result of the amendment of the Parent Company's articles of incorporation duly approved by the SEC. As of December 31, 2016, the total number of registered stockholders based on the records of the Parent Company's Stock and Transfer Agent is six, with the shares held in the name of PCD Nominee Corporation belong to 111 participants under Philippine Depository & Trust Corp. The Company's listed shares closed at P5.99 per share as of March 31, 2017.

## ***12.2 Retained Earnings***

In 2014, the Parent Company's BOD approved the reversal of the P275.0 million appropriated retained earnings originally set aside for the planned acquisition of a parcel of land and construction of a building in relation to its corporate expansion project.

On May 12, 2016, March 5, 2015 and December 29, 2014, the Parent Company's BOD approved the declaration of cash dividends amounting to P44.4 million, P100.0 million and P265.5 million, respectively. There are no outstanding dividends payable as of December 31, 2016 and 2015.

On November 8, 2016, the Group's BOD approved a share buyback program and appropriated P200.0 million for this. The program commenced on November 22, 2016 and will continue until the amount earmarked for the program has been fully utilized or until such earlier time as the Group's BOD determines otherwise. As of March 31, 2017 and December 31, 2016, the Parent Company has outstanding treasury shares of 30,957,200 and 5,454,400 with cost amounting to P199.0 million and P30.0 million, respectively.

On 11 April 2017, the Board approved a new share buyback program with a volume of up to another P200 million to be appropriated from the unrestricted retained earnings of the Company. The new buyback program replaces the previous mandate which has already been fully expended.

### 12.3 Earnings per Share

Basic earnings per share (EPS) is computed as follows:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Income available to common shares	P 27,142,679	P 1,011,519,985
Divided by the weighted average number of outstanding common shares	<u>1,194,617,376</u>	<u>1,199,090,933</u>
Basic earnings per share	<u>P 0.02</u>	<u>P 0.84</u>

## 13. COMMITMENTS AND CONTINGENCIES

### 13.1 Operating Lease Commitments – Company as Lessor

Certain real properties held by the Group as investment properties were provisionally leased out for certain minor incidental uses under an operating lease agreement.

The security deposits, which may be refunded to the counterparties at the end of the lease term, and advance rentals, which may be applied as lease payments, amounted to P0.8 million and P2.7 million as of March 31, 2017 and December 31, 2016, respectively, and are presented under Trade and Other Payables account in the statements of financial position.

### 13.2 Operating Lease Commitments – Company as Lessee

The Group is a lessee under various operating lease agreements with certain related parties covering certain warehouses with terms ranging from one to three years. In 2016, the lease agreements were renewed for one year term renewable annually with a new rental fee. The future minimum lease payable under these non-cancellable operating leases for the following periods ended:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Within one year	P 23,107,110	P 28,478,841
More than one year but less than five years	<u>-</u>	<u>-</u>
	<u>P 23,107,110</u>	<u>P 28,478,841</u>

Rentals incurred amounting to P8.3 million for the period ended March 31, 2017 and P3.8 million for the period ended March 31, 2016 is shown as part of Rental under Other Operating Expenses in the statements of comprehensive income. Outstanding liability arising from these transactions amounted to P1.1 million as of December 31, 2016, is shown as part of Accrued expenses and other payables under Trade and Other Payables. There was no outstanding liability arising from these transactions as of March 31, 2017.

### **13.3 Credit Facilities**

The Group has availed of various credit line facilities made available on group basis to the Group, certain of its affiliates and shareholder-directors. Availments under the credit facility are subject to cross suretyship arrangements between the Group, certain of its affiliates and shareholder-directors (see Note 10). The credit lines are also subject to a continuing surety arrangement of the shareholder and Board Chairman in his capacity as controlling shareholder of the group. There was no balance from these credit lines as of March 31, 2017 and December 31, 2016, respectively.

### **13.4 Others**

There are other commitments and contingent liabilities that arise in the normal course of the Group's operations that are not reflected in the financial statements. As of March 31, 2017 and December 31, 2016, management is of the opinion that losses, if any, from these items will not have a material effect on the Group's financial statements.

## **14. RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks which resulted from both its operating, investing and financing activities.

The Group's risk exposures are managed in close coordination with the BOD who focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group actively engages in the trading of certain financial assets for speculative purposes. The most significant financial risks to which the Group is exposed to are described below and in the succeeding pages.

### **14.1 Interest Rate Risk**

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. At March 31, 2017 and December 31, 2016, the Group is exposed to changes in market interest rates through its loans payable (see Note 10) and cash in banks, which are subject to variable interest rates.

### **14.2 Credit Risk**

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from selling goods to customers, granting advances to related parties and by placing deposits with banks.

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or the detailed analysis provided in the notes to financial statements as shown below.

	<b>March 31,</b> <b><u>2017</u></b>	December 31, <b><u>2016</u></b>
Cash and cash equivalents	<b>P 1,491,731,046</b>	P 1,383,113,717
HTM investments	<b>244,740,000</b>	244,740,000
Trade and other receivables	<b><u>160,944,403</u></b>	<u>98,982,001</u>
	<b><u>P 1,897,415,449</u></b>	<b><u>P 1,726,835,718</u></b>

None of the Group's financial assets are secured by collateral or other credit enhancements, except for cash in banks as described below.

*(a) Cash and cash equivalents*

The credit risk for cash in banks is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

As part of Group's policy, bank deposit is only maintained with reputable financial institutions. Cash in banks which is insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million per depositor per banking institution, as provided for under RA No. 9576, *Amendment to Charter of Philippine Deposit Insurance Corporation*, is still subject to credit risk.

*(b) Trade and Other Receivables*

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty. Based on historical information about the counterparty default rates, management consider the credit quality of the receivable that are not past due or impaired to be good.

*(c) HTM Investments*

No impairment loss has been recorded in relation to the debt securities held to maturity (see Note 14). No amounts related to investment in debts securities are psst due.

### **14.3 Liquidity Risk**

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are deposited in banks. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of March 31, 2017, the Group's financial liabilities have contractual maturities as follows:

	Within <u>6 Months</u>	6 to 12 <u>Months</u>	More than <u>1 year</u>
Trade and other payables	P 212,982,660	-	-
Loans payable	<u>808,315,890</u>	<u>-</u>	<u>-</u>
	<b><u>P 1,021,298,551</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

This compares to the maturity of the Parent Company's financial liabilities as of December 31, 2016 as follows:

	Within <u>6 Months</u>	6 to 12 <u>Months</u>	More than <u>1 year</u>
Trade and other payables	P 308,241,540	P -	P -
Loans payable	<u>450,076,563</u>	<u>22,845,313</u>	<u>-</u>
	<b><u>P 758,318,103</u></b>	<b><u>P 22,845,313</u></b>	<b><u>P -</u></b>

The above contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of the reporting periods.

## 15 CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern in order to provide adequate returns in the future to its stockholders and benefits for other stakeholders.

The Group monitors capital on the basis of the carrying amount of equity as presented on the statements of financial position.

The Group sets the amount of capital in proportion to its overall financing structure, i.e. equity and liabilities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The debt-to-equity ratio as of March 31, 2017 and December 31, 2016 is presented below.

	March 31, <u>2017</u>	December 31, <u>2016</u>
Liabilities	P 1,026,516,454	P 782,760,830
Equity	<u>3,066,071,486</u>	<u>3,207,883,886</u>
Debt-to-equity ratio	<u>0.33 : 1.00</u>	<u>0.24 : 1.00</u>

## 16 CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

## 16.1 Carrying Amounts and Fair Values of Financial Assets and Financial Liabilities

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown in the succeeding page.

	March 31, 2017		December 31, 2016	
	Carry Values	Fair Values	Carry Values	Fair Values
<i>Financial Assets</i>				
Loans and receivables				
Cash and cash equivalents	P 1,491,731,046	P 1,491,731,046	P 1,383,113,717	P 1,383,113,717
Trade and other receivables	<u>160,944,403</u>	<u>160,944,403</u>	<u>98,982,001</u>	<u>98,982,001</u>
	<b>1,652,675,449</b>	<b>1,652,675,449</b>	<b>1,482,095,718</b>	<b>1,482,095,718</b>
HTM investments -				
Debt securities	<u>244,740,000</u>	<u>258,445,440</u>	<u>244,740,000</u>	<u>265,787,640</u>
		-	-	-
	<b>P 1,897,415,449</b>	<b>P 1,911,120,889</b>	<b>P 1,726,835,718</b>	<b>P 1,747,883,358</b>

See Notes 1.3 and 1.9 for a description of the accounting policies for each category of financial instrument including the determination of fair values. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 14.

## 16.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments as of March 31, 2017 and December 31, 2016 and does not have relevant offsetting arrangements as of the end of the reporting periods. Currently, financial assets and financial liabilities are settled on a gross basis; however, if applicable, each party to the financial instrument will have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties.

## 17 FAIR VALUE MEASUREMENT AND DISCLOSURES

### 17.1 Fair value hierarchy

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial asset which are measured at fair value on a recurring onion-recurring basis and those assets and liabilities not measured at fair value, but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

### ***17.2 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed***

The tables presented in the succeeding page summarize the fair value hierarchy of the Company's financial assets and financial liabilities which are not measured at fair value in the March 31, 2016 and December 31, 2015 statements of financial position but for which fair value is disclosed.

<b>March 31, 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><i>Financial Assets</i></b>				
Cash and cash equivalents	P 1,491,731,046	P -	P -	P 1,491,731,046
Trade and other receivables	-	-	160,944,403	160,944,403
Equity security -				
HTM investment	<u>244,740,000</u>	<u>-</u>	<u>-</u>	<u>244,740,000</u>
	<u>P 1,736,471,046</u>	<u>P -</u>	<u>P 160,944,403</u>	<u>P 1,897,415,449</u>
<b><i>Financial liabilities</i></b>				
Trade and other payables	P -	P -	P 212,982,660	P 212,982,660
Loans payable	<u>805,000,000</u>	<u>-</u>	<u>-</u>	<u>805,000,000</u>
	<u>P 805,000,000</u>	<u>P -</u>	<u>P 212,982,660</u>	<u>P 1,017,982,660</u>
<b>December 31, 2016</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><i>Financial Assets</i></b>				
Cash and cash equivalents	P 1,383,113,717	P -	P -	P 1,383,113,717
Trade and other receivables	-	-	98,982,001	98,982,001
Equity security -				
HTM investment	<u>265,787,640</u>	<u>-</u>	<u>-</u>	<u>265,787,640</u>
	<u>P 1,648,901,357</u>	<u>P -</u>	<u>P 98,982,001</u>	<u>P 1,747,883,358</u>
<b><i>Financial liabilities</i></b>				
Trade and other payables	P -	P -	P 306,978,786	P 306,978,786
Loans payable	<u>467,500,000</u>	<u>-</u>	<u>-</u>	<u>467,500,000</u>
	<u>P 467,500,000</u>	<u>P -</u>	<u>P 306,978,786</u>	<u>P 774,478,786</u>

For financial assets and financial liabilities, other than HTM investment, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investment consists of debt securities with fair value determined based on prices quoted in PSE representing the bid prices at the end of the reporting period.

### ***17.3 Fair Value Measurement for Non-financial Assets***

For the fair value measurement of non-financial asset, the fair market values of investment properties as of March 31, 2017 and December 31, 2016 classified as Level 2 which are determined through appraisal reports obtained on November 11, 2016 amounted to P2.1 billion (see Note 8).

## **19. EVENTS AFTER REPORTING DATE**

In April 2017, the Company obtained a five year term loan of up to P2.5 billion to be used to bankroll purchases of property-related investments by the SBS group of companies in line with its diversification strategy to increase the property-related investments portfolio of the Group and provide for visible acquisition-driven growth.

Also in April 2017, the Company's Board of Directors approved and recommended for approval of the shareholders during the Annual Shareholders' Meeting to be held on

June 9, 2017 for the conduct a stock rights offering of the unissued common shares of the Company (“Rights Issue”) to be offered first to all existing shareholders of the Company. The Rights Issue will be undertaken within a period of 12 months from approval of the shareholders and shall be conditional to having obtained the prior approval of the Securities and Exchange Commission and Philippine Stock Exchange for the Rights Issue, with the size and terms of the stock rights offer to be determined and finalized by the Board of Directors, including the entitlement ratio, offer price, record date and specific uses of the proceeds of the Rights Issue.

On 11 April 2017, the Board of Directors of the Company approved a new share buyback program with a volume of up to another P200 million. The new buyback program replaces the previous mandate which has already been fully expended. The share repurchases will be undertaken in the open market through the trading facilities of the Philippine Stock Exchange and will run from April 18, 2017 until the amount earmarked for the program has been fully utilized.

On March 28, 2017, the Board of Directors declared stock dividends of 46,761,616 common shares to be payable at the rate of one (1) common share for every twenty five (25) common shares owned by stockholders. The stock dividend declaration will be submitted for approval of the shareholders in its Annual Shareholders' Meeting to be held on June 9, 2017.

On February 28, 2017 and April 21, 2017, respectively, the Board of Directors approved and recommended for shareholders approval the following amendments to the Articles of Incorporation of the Company, to wit

- (a) Amendment of the Second Article of the Articles of Incorporation of the Company relative to the secondary purpose to diversify the business of the Company to include the holding, acquiring or participating in investments in property related assets as well as shares or interests in entities involved in property related businesses as and when the appropriate opportunities arise.
- (b) Amendment of the Seventh Article of the Articles of Incorporation of the Company to provide for the increase of the authorized capital stock of the Company by up to Five Billion Five Hundred Fifty Two Million Five Hundred Thousand Pesos (PhP 5,552,500,000.00), Philippine currency, divided into Five Billion Five Hundred Fifty Million (5,552,500,000) common shares with par value of One Peso (PhP 1.00) per share or with an aggregate par value of PhP 5,552,500,000.00 from One Billion Five Hundred Fifty Million Pesos (PhP 1,550,000,000.00), Philippine currency, divided into One Billion Five Hundred Fifty Million (1,550,000,000) common shares with par value of One Peso (PhP 1.00) per share; and to delegate to the Board of Directors the power and authority to: (a) determine the manner (either in one or more tranches) by which the proposed increase in the authorized capital stock of the Company will be implemented; and (b) the manner by which the increase in the authorized capital stock will be subscribed and paid for, such as, but not limited to, a stock rights offering, private placement transaction or public offering; and (ii) the delegation to the Board of Directors of the authority to file such applications and submit such documents with the Securities and Exchange Commission and other government agencies, as may be necessary to increase the authorize capital stock of the Company and amend the articles of incorporation of the Company.

**SBS PHILIPPINES CORPORATION**  
**LIST OF SEC SUPPLEMENTARY SCHEDULES**  
**March 31, 2017**

Supplementary Schedules to Financial Statements  
(Annex 68-E, SRC Rule 68)

<u>Schedule</u>	<u>Content</u>
A	Financial Assets Held-to-maturity Investments
B	Amounts Payables to Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements
	Amounts Payable to Related Parties which are Eliminated during the Consolidation of Financial Statements
D	Intangible Assets – Other Assets
E	Long Term Debt
F	Indebtedness to Related Parties
G	Guarantees of Securities of Other Issuers
H	Capital Stock

**SBS PHILIPPINES CORPORATION**

SEC Released Amended SRC Rule 68

Annex 68-E

**Schedule A****Financial Assets**

Name of issuing entity and association of each issue	Number of shares	Amount shown in the balance sheet	Income received and accrued
Ayala Corporation (Preferred) - HTM Investments	<u>489,480</u>	<u>244,740,000</u>	<u>3,411,064</u>
	<u>489,480</u>	<u>P 244,740,000</u>	<u>P 3,411,064</u>

**SBS PHILIPPINES CORPORATION**  
SEC Released Amended SRC Rule 68  
Annex 68-E  
**Schedule B**

**Amounts Payable to Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)**

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts paid	Amounts reclassified	Current	Non-current	

**NOTHING TO REPORT**

SBS PHILIPPINES CORPORATION  
SEC Released Amended SRC Rule 68  
Annex 68-E  
Schedule C

Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Deductions

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not Current	Balance at end of period
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**NOTHING TO REPORT**

**SBS PHILIPPINES CORPORATION**  
 SEC Released Amended SRC Rule 68  
 Annex 68-E  
**Schedule D**  
**Other Assets**

Description	Beginning Balance	Additions at cost	Deductions		Other changes additions (deductions)	Ending Balance
			Charged to cost and expenses	Charged to other accounts		
Prepayments	3,497,247	4,398,320	-		-	7,895,567
Creditable withholding tax	7,880,786	787,420	-		( 8,668,206 )	-
Input Value-Added Tax	131,707,662	15,306,747	-	-	( 21,659,337 )	125,355,072
	<b>P 143,085,695</b>	<b>P 20,492,487</b>	<b>-</b>	<b>-</b>	<b>( 30,327,543 )</b>	<b>P 133,250,639</b>

**SBS PHILIPPINES CORPORATION**

SEC Released Amended SRC Rule 68

Annex 68-E

**Schedule E****Long Term Debt**

Title of Issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "long-term debt" in related balance sheet
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<b>Term Loan</b>	<b>P 1,200,000,000</b>	<b>P 805,000,000</b>	<b>P -</b>
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**SBS PHILIPPINES CORPORATION**

SEC Released Amended SRC Rule 68

Annex 68-E

**Schedule F****Indebtedness to Related Parties (Long-Term Loans from Related Companies)**

Name of related party	Balance at beginning of period	Balance at end of period
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**NOTHING TO REPORT**

**SBS PHILIPPINES CORPORATION**

SEC Released Amended SRC Rule 68

Annex 68-E

**Schedule G**

**Guarantees of Securities of Other Issuers**

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
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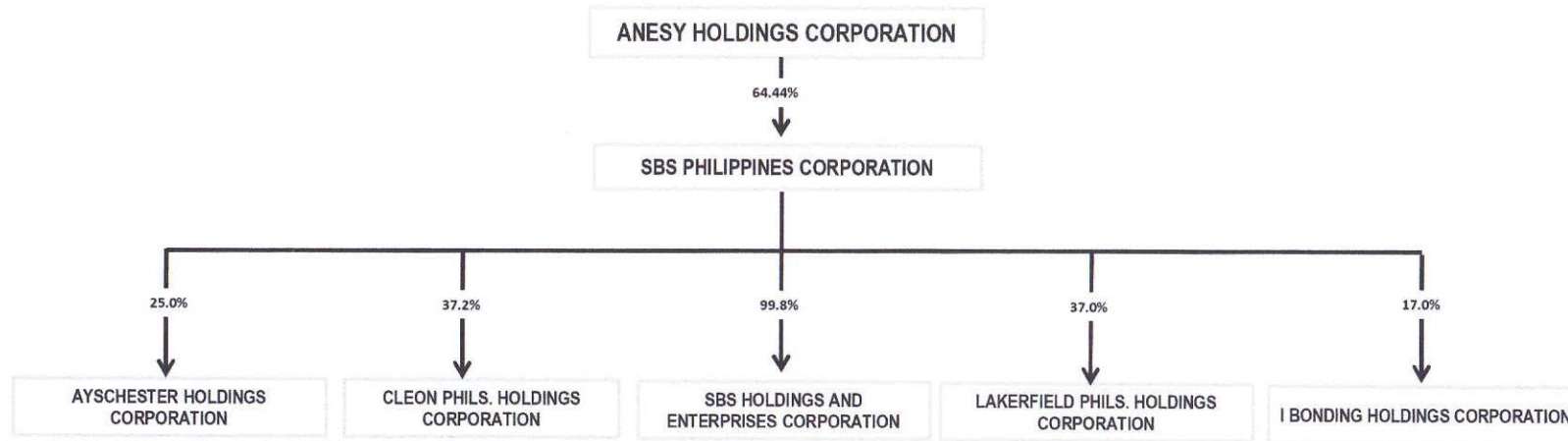
**NOTHING TO REPORT**

**SBS PHILIPPINES CORPORATION**  
SEC Released Amended SRC Rule 68  
Annex 68-E  
**Schedule H**  
**Capital Stock**

Title of Issue	Number of shares authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties	Directors, officers and employees	Others
Common Shares						
Class A Shares	1,550,000,000	1,200,000,000	-	757,855,800	112,904,802	329,239,398
Class B Shares	-	-	-	-	-	-
<b>Common Shares</b>	<b><u>1,550,000,000</u></b>	<b><u>1,200,000,000</u></b>	<b><u>-</u></b>	<b><u>757,855,800</u></b>	<b><u>112,904,802</u></b>	<b><u>329,239,398</u></b>

SHOWING THE RELATIONSHIPS BETWEEN AND AMONG COMPANIES IN THE GROUP,  
ULTIMATE PARENT COMPANY AND SUBSIDIARY

### SBS PHILIPPINES CORPORATION



**SBS PHILIPPINES CORPORATION**  
**Schedule of Financial Indicators for March 31, 2017 and 2016**

	2017	2016
Liquidity Ratio <sup>1</sup>	299.0%	193.5%
Debt to Equity Ratio <sup>2</sup>	33.5%	63.6%
Asset to Equity Ratio <sup>3</sup>	133.5%	163.6%
Return on Assets <sup>4</sup>	0.7%	1.2%
Return on Equity <sup>5</sup>	1.0%	2.0%
Cost to Income Ratio <sup>6</sup>	12.1%	10.2%
Interest Cost Coverage Ratio <sup>7</sup>	927.4%	724.7%
Earnings per Share <sup>8</sup>	PHP 0.02	PHP 0.04

<sup>1/</sup> *Current Assets over Current Liabilities*

<sup>2/</sup> *Total Liabilities over Equity*

<sup>3/</sup> *Total Assets over Equity*

<sup>4/</sup> *Net Income over Average Assets*

<sup>5/</sup> *Net Income over Average Equity*

<sup>6/</sup> *Cost and Expenses over Revenues*

<sup>7/</sup> *Net Income over Weighted Average Number of Common Outstanding Shares*

<sup>8/</sup> *EBIT over Interest Expense*

**SBS Philippines Corporation**

Aging of Trade Receivables

As of March 31, 2017

	<u>Amount</u>	<u>Current</u>	<u>0-30</u>	<u>31-60</u>	<u>61-90</u>	<u>91-120</u>	<u>120-150</u>	<u>151-180</u>	<u>over 180 days</u>
Grand Total	148,327,980.50	128,191,987.99	17,272,932.51	1,162,350.00	93,550.00	1,592,500.00	11,910.00	-	2,750.00
No. of Companies	408	333	60	8	2	2	2	0	1

**PART II: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS  
AND RESULTS OF OPERATIONS**

*The following discussions should be read in conjunction with the Interim Unaudited Financial Statements of the Company and its subsidiary as of and for the period 31 March 2017 (with comparative figures as of 31 December 2016 and for the period ended 31 March 2016).*

**Results of Operations (1Q 2017 versus 1Q 2016)**

SBS Philippines Corporation ("SBS" or the "Company") and its subsidiary continued with its growth momentum as it reported sales of P261.9 million in the first quarter of 2017, up by 4.5% compared to previous year comparable period of P250.8 million. The sales improvement in the first quarter of 2017 reflected the strong volume growth in sales of food ingredients and some improvement in pricing.

The gross profit margin expanded to 25.6% in the first quarter of 2017, reflecting an improvement from the 20.8% average gross margin posted for the full year 2016 as a result of better pricing for certain commodity products due to a current short supply situation. However, compared year on year, this was about short of the 27.0% gross profit margin recorded in the first quarter of 2016 due to higher average cost of goods sold in the first quarter of 2017 as a result of the peso depreciation.

The current ratio further improved to 299.0% as of 31 March 2017 from 188.2% as of 31 March 2016, as current liabilities were reduced to P1.0 billion from P1.4 billion as of 31 March 2016.

**Material Changes to the Statement of Comprehensive Income for the First Quarter ended 31 March 2017 Compared to the Statement of Comprehensive Income for the First Quarter ended 31 March 2016.**

Sales for the period grew by 4.5% from P 250.8 million in 2016 to P261.9 million in 2017. This sales growth is due to the higher volume sales primarily of food ingredients during the period.

Gross profit declined marginally by P0.7 million or by 1.0% versus previous comparable period due to higher average cost of goods sold for the quarter.

Other operating expenses increased by 23.3% to P31.6 million in 2017 from P25.7 million posted in 2016 as a result of rental rate increases that took effect at the start of 2017. On the other hand, there was a significant reduction in finance charges which dropped by 42.7% or P5.9 million, from P10.2 million in 2016 to P4.4 million in 2017 following the scale down in outstanding debt.

Other operating Income substantially declined by P26.2 million in 2017 in view of the discontinuation of previous income-generating lease arrangements on account changes in business requirement of the contracting parties.

Equity in net losses of an associate also increased by P0.8 million year on year as a result of the additional losses incurred by four new associate companies which equity interests were acquired in 2016. The net loss in first quarter of 2016 pertained to the losses of another associate company which equity interests were acquired in 2012.

On account of such developments, net income before tax declined year on year by 43.4% from P64.0 million in 2016 to P36.2 million in 2017.

Due to the lower taxable income posted for the period, income tax expense fell by 47.3% or P8.1 million. Net profit consequently declined from P46.9 million in 2016 to P27.2 million in 2017 mainly attributed to the decline in rental income during the period.

### **Material Changes to the Statement of Financial Position as at 31 March 2017 Compared to the Statement of Financial Position as at 31 December 2016**

#### **Assets**

As at 31 March 2017, total assets reached P4,092.6 million consisting of P3,045.1 million in current assets and P1,047.5 million in non-current assets. As at 31 December 2016, the total assets registered P3,990.6 million comprising of P2,941.0 million in current assets and P1,049.6 million in non-current assets.

Cash in banks increased by 7.9% from P1,383.1 million in 2016 to P1,491.7 million in 2017. For the first three-month period ended 31 March 2017, a total collection of P354.6 million were received as follows: P3.4 million in cash dividends received from held-to-maturity (HTM) investment, P0.8 million interest received from short term bank money placements, P350.0 million loan proceeds availments and P0.4 million gain in exchange rates. Against this, a total of P246.0 million in settlements were made consisting of the following: P12.5 million in loan repayments, P0.1 million in office equipment acquisition which includes additional improvement costs, P60.0 million cash used in operating activities, P169.0 million in share buybacks and P4.4 million in interest payments.

Trade and other receivables increased by 62.6% from P99.0 million in 2016 to P160.9 million in 2017 as result of higher credit sales for the first quarter of 2017.

Inventory level went down by P56.6 million or 4.3% from P1,313.1 million in 2016 to P1,256.5 million in 2017 on account of delayed deliveries from certain foreign suppliers due to a tightness in the supply situation.

Prepayments and other current assets declined by 6.8% or P9.8 million from P145.7 million in 2016 to P135.9 million in 2017 mainly contributed by reduction in VAT inputs.

Carrying cost of property and equipment declined by P1.3 million or 6.5% to P19.1 million in 2017 from P20.4 million in 2016 as a result of a P1.4 million additional depreciation expense net of P0.1 million additional improvement cost and office equipment acquired during the period.

### **Liabilities**

The total liabilities as at 31 March 2017 amounted to P1,026.5 million comprising of P1,018.4 million in current liabilities and P8.2 million in non-current liabilities. For 31 December 2016, total liabilities was at P782.8 million comprising of P774.6 million in current liabilities and P8.2 million in non-current liabilities.

Current liabilities increased by 31.5% or P243.8 million from P774.6 million in 2016 to P1,018.4 million in the first quarter of 2017 due to additional availments of short term bank loans for working capital.

An income tax payable of P0.4 million was posted representing the income tax due from the group for first three months of 2017 which was for payment in May 2017.

Post-employment defined benefit obligation has no movement amounting to P8.2 million in 2016 to 2017.

### **Total equity**

The total equity as at 31 March 2017 was P3,066.1 million comprising of P1,200.0 million in capital stock, P898.4 million in additional paid in capital stock, P1,170.7 million in retained earnings gross of the P4.1 million revaluation reserves and P198.9 million in treasury shares. As of 31 December 2016, total equity amounted to P3,207.9 million comprising of P1,200.0 million in capital stock, P898.4 million in additional paid in capital stock, P1,143.5 million in retained earnings gross of P4.1 million reserves and P30.0 million in treasury shares.

Capital stock remains at P1,200.0 million as of 2017 from 2016.

Retained earnings increased by 2.4% or P27.2 million from P1,143.5 million in 2016 to P1,170.7 million in 2017 on account of the additional current period income.

### **Liquidity and Capital Resources**

#### *Net cash flows from operating activities*

The 2017 cash flows from operating activities amounted P60.0 million. The cash disbursements were used for the payment of trade and other payables.

*Net cash flows from investing activities*

The cash flow from investing activities resulted to a net inflow of P4.1 million mainly contributed by the cash dividends received from the HTM Investment and interest income received from short term placements.

*Net cash flows from financing activities*

The cash flow from financing activities resulted in a net inflow of P164.2 million. The cash inflow was mainly contributed by the net proceeds from the short term bank debt availed of and partially compensated by the purchase of treasury shares and interest payments.

**Key Performance Indicators (1Q 2017 versus 1Q 2016)**

	2017	2016
Liquidity Ratio <sup>1</sup>	299.0%	193.5%
Debt to Equity Ratio <sup>2</sup>	33.5%	63.6%
Asset to Equity Ratio <sup>3</sup>	133.5%	163.6%
Return on Assets <sup>4</sup>	0.7%	1.3%
Return on Equity <sup>5</sup>	1.0%	2.8%
Cost to Income Ratio <sup>6</sup>	12.1%	19.6%
Interest Cost Coverage Ratio <sup>7</sup>	927.4%	724.7%
Earnings per Share <sup>8</sup>	PHP 0.02	PHP 0.04

<sup>1/</sup> *Current Assets over Current Liabilities*

<sup>2/</sup> *Total Liabilities over Equity*

<sup>3/</sup> *Total Assets over Equity*

<sup>4/</sup> *Net Income over Average Assets*

<sup>5/</sup> *Net Income over Average Equity*

<sup>6/</sup> *Cost and Expenses over Revenues*

<sup>7/</sup> *EBIT over Interest Expense*

<sup>8/</sup> *Net Income over Weighted Average Number of Common Outstanding Shares*

## Other qualitative and quantitative factors

**(i) Any known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. The following conditions shall be indicated: whether or not the registrant is having or anticipates having within the next twelve (12) months any cash flow or liquidity problems; whether or not the registrant is in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments; whether or not a significant amount of the registrant's trade payables have not been paid within the stated trade terms.**

In April 2017, the Company obtained a five year term loan of up to P2.5 billion to be used to bankroll purchases of property-related investments by the SBS group of companies in line with its diversification strategy to increase the property-related investments portfolio of the Group and provide for visible acquisition-driven growth.

Also in April 2017, the Company's Board of Directors approved and recommended for approval of the shareholders during the Annual Shareholders' Meeting to be held on June 9, 2017 for the conduct a stock rights offering of the unissued common shares of the Company ("Rights Issue") to be offered first to all existing shareholders of the Company. The Rights Issue will be undertaken within a period of 12 months from approval of the shareholders and shall be conditional to having obtained the prior approval of the Securities and Exchange Commission and Philippine Stock Exchange for the Rights Issue, with the size and terms of the stock rights offer to be determined and finalized by the Board of Directors, including the entitlement ratio, offer price, record date and specific uses of the proceeds of the Rights Issue.

On February 28, 2017 and April 21, 2017, respectively, the Board of Directors approved and recommended for shareholders' approval in its forthcoming Annual Shareholders' Meeting in June 2017 the following amendments to the Articles of Incorporation of the Company, to wit

- (a) Amendment of the Second Article of the Articles of Incorporation of the Company relative to the secondary purpose to diversify the business of the Company to include the holding, acquiring or participating in investments in property related assets as well as shares or interests in entities involved in property related businesses as and when the appropriate opportunities arise.
- (b) Amendment of the Seventh Article of the Articles of Incorporation of the Company to provide for the increase of the authorized capital stock of the Company by up to Five Billion Five Hundred Fifty Two Million Five Hundred Thousand Pesos (PhP 5,552,500,000.00), Philippine currency, divided into Five Billion Five Hundred Fifty Million (5,552,500,000) common shares with par value of One Peso (PhP 1.00) per share or with an aggregate par value of PhP 5,552,500,000.00 from One Billion Five Hundred Fifty Million Pesos (PhP 1,550,000,000.00), Philippine currency, divided into One Billion Five Hundred Fifty Million (1,550,000,000) common shares with par value of One Peso (PhP

1.00) per share; and to delegate to the Board of Directors the power and authority to: (a) determine the manner (either in one or more tranches) by which the proposed increase in the authorized capital stock of the Company will be implemented; and (b) the manner by which the increase in the authorized capital stock will be subscribed and paid for, such as, but not limited to, a stock rights offering, private placement transaction or public offering; and (ii) the delegation to the Board of Directors of the authority to file such applications and submit such documents with the Securities and Exchange Commission and other government agencies, as may be necessary to increase the authorize capital stock of the Company and amend the articles of incorporation of the Company.

Other than those disclosed above and in the notes to the financial statements, there are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation, or any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period. The Company does not expect any liquidity problems and is not in default of any financial obligations, including any loan covenant.

**(ii) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation:**

In April 2017, the Company obtained a five year term loan of up to P2.5 billion the proceeds of which will be used to bankroll purchases of property-related investments by the SBS group of companies in line with its diversification strategy to increase the property-related investments portfolio of the Group and provide for visible acquisition-driven growth.

**(iii) Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period:**

None

**(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures**

Capital Expenditures

Reference is made to the proposed utilization of proceeds raised from the IPO as disclosed in the Company's Prospectus dated July 24, 2015 and the Disbursement of Proceeds and Progress Report dated April 12, 2017.

On May 20, 2016, the Company's Board of Directors approved the variation in and extension of timeframe for the utilization of the remaining unutilized balance of the IPO proceeds amounting to P670,884,497.96. The details of the reallocation and change in the use of IPO Proceeds are as follows:

(a) P350,000,000.00 initially allocated and earmarked for the acquisition of a real estate property located in Muntinlupa City has been redeployed and reallocated instead to fund strategic acquisitions. The project for the acquisition of the industrial property located at Brgy. Tunasan Muntinlupa City originally intended as the new warehouse depot site has been reconsidered in light of the residential communities being developed alongside the proposed warehouse location site and the likely locational conflicts and zoning issues resulting from such change in land use.

The Company's Directors and Management considered it to be in the best interests of the Company and its shareholders that this portion of the IPO proceeds is instead channeled to further its strategy to grow its business through synergistic acquisitions that will enhance the Company's product offerings and servicing capabilities. The redeployment of such financial resources to pursue potential business-building acquisitions is in step with the strategic goal of the Company to grow its principal business and expand of its chemical operations via acquisition, and/or investments in allied chemical businesses, as and when such opportunity arises. The Company anticipates to close such projects during the period 2016-2018.

(b) P100,000,000.00 initially allocated and earmarked for the construction of the new Muntinlupa warehouse facilities is redeployed and reallocated instead to fund the setting up of value added services and/or construction of such facilities to enhance and increase the Company's value-added services. The Company expects to undertake these project during the period 2016-2017.

(c) P103,969,248.00 initially allocated and earmarked to fund specific capital expenditures as detailed in the Company's Prospectus dated July 24, 2015 is reallocated to finance investments in new equipment and machinery to include but shall not be limited to those itemized in the Company's Prospectus which investments are to be staggered during the period 2016-2017 and aligned with the current business needs of the Company .

(d) P100,000,000.00 initially allocated and earmarked to fund specific new product purchases as detailed in the Company's Prospectus dated July 24, 2015 is reallocated to finance the purchase and importation of additions to the Company's product portfolio to cover a much broader range of products which shall include but shall not be limited to new products and product improvements listed in the Company's Prospectus as well as fund the organization of a business development unit to strengthen sales and marketing force for the additional product offerings.

(e) P14,830,318.45 excess of actual IPO expenses over the estimated IPO expenses is channeled to general working capital requirements.

(f) P2,084,931.51 savings arising from lower actual interest expense from the interest costs estimated for the BDO debt prepayment is likewise channeled for use as additional general working capital.

### Share Buyback Program

The Board of Directors of the Company , at a meeting held on 11 April 2017, approved a new share buyback program with a volume of up to another P200 million. The new buyback program replaces the previous mandate which has already been fully expended.

The share repurchases will be undertaken in the open market through the trading facilities of the Philippine Stock Exchange and will run from April 18, 2017 until the amount earmarked for the program has been fully utilized.

The program will be funded by internally generated funds from the Company's unrestricted retained earnings and is not expected to affect the Company's existing or prospective projects and dividend policy. The repurchased shares will be held as treasury shares.

**(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have impact on sales/revenues/ income from continuing operations**

Certain income-generating lease arrangements of the Company will no longer be continued in 2017 as a result of changes in the business requirements of its contract parties.

Also, the Company expects some price volatility for its commodity chemical products in 2017 on account of some production outages of chemical producers-manufacturers in Asia resulting to some supply disruptions which have the potential to drive current prices up. The Company however maintains a reasonable safety inventory position level and buffer to protect against such contingencies and mitigate the effects of such supply shortfalls.

There also remains a weakness of demand in the industrial sector as a result of the slowdown in mining operations but this is being compensated by stronger demand in the food industry.

**(vi) Any significant elements of income or loss that did not arise from continuing operations**

None

**(vii) Causes for any material change from period to period**

Please refer to the discussions provided on the material changes in the results of operations, comprehensive income and financial position under the **management's discussion and analysis of financial conditions and results of operations stated above.**

**(viii) Seasonal aspects that had material effect on the financial condition or results of operations**

For some end markets served by the Company, there is a pronounced cyclicity in the level of industrial production due to consumption and weather patterns affecting their processes and products. For the food and beverage business, the low requirement months in general are March-April and November-December while these drier months are generally the peak period for the requirements of the feeds and mining industries. This pronounced cyclicity creates some complexity in inventory management as the Company has to make purchases that would need to correspond to the expected demand for its products.

However, the Company's significant experience in the industry allows it to fairly estimate the supply requirements of its client base. The Company considers historical sales data, customer's rolling production forecasts, market information collected by the sales force and seasonal trends in anticipating future demand for its products. Further, given the Company's presence in a broad range of industries, there is substantially less exposure to the cyclicity of specific industries.