

COVER SHEET

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(Company's Full Name)

SBS PHILIPPINES CORPORATION
(FORMERLY SYTENGO PHILIPPINES
CORPORATION)

(Business Address : No. Street City / Town / Province)

NO. 10 RESTHAVEN STREET SAN
FRANCISCO DEL MONTE QUEZON
CITY

FORM TYPE
17-Q

Department Requiring the Report
MSRD

Secondary License Type, If Applicable

COMPANY INFORMATION

Company's Email Address

Company's Telephone Numbers
3 7 1 - 1 1 1 1

Mobile Number

No. of Stockholders

Annual Meeting
Month/Day
Last Friday of June

Fiscal Year
Month/Day
12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person
REGINA SIMONA B. DE GUZMAN

Email Address
rs.deguzman@sbsph.com

Telephone Number's
(02) 371-1111

Contact Person's Address
10 Resthaven Street, San Francisco del Monte, Quezon City

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 quarterly period ended **30 JUNE 2017**
2. Commission identification number **A200110402**
3. BIR Tax Identification No **213-054-503-000**
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. Industry Classification Code: (SEC Use Only)
7. **No. 10 Resthaven Street,**
San Francisco Del Monte, Quezon City **1105**
Address of issuer's principal office Postal Code
8. **(632) 371-1111**
Issuer's telephone number, including area code
9. **N/A**
Former Name/Address/Fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of stock as of June 30, 2017
Common Shares	1,200,000,000

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

Yes [] No []

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

COMMON SHARES

12. 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.

The unaudited financial statements of SBS Philippines Corporation ("SBS") as of and for the period ended June 30, 2017 (with comparative figures as of December 31, 2016 and for the period ended June 30, 2016) and Selected Notes to the Financial Statements is hereto attached as **Annex "A"**.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

PART II--OTHER INFORMATION

Outlook On Economic Position

For the core chemical business, the Company expects the sluggish demand in industrial markets particularly the mining market to continue in the second half of 2017. Also, increased pricing pressures on commodity chemicals are anticipated as a number of chemical raw material manufacturers in Asia experienced production outages due to pollution and/or environmental control issues in China and India that caused some disruptions in supply availability. The Company has taken pricing action to account for these supplier adjustments and expects such adjustments to have some dampening effect on the price competitiveness of its basic industrial products.

Meanwhile, the business development initiatives for water treatment chemicals, additives for construction and infrastructure, and other new product segments are starting to take hold and the Company expects to capture more new business gains from these products moving forward.

For the property related business, the Company is pursuing a diversification and investment strategy that will allow the Company to grow and capture opportunities presented in the robust real property sector. It is currently building its real estate portfolio and expects this action plan to help balance and counteract some of the fluctuations in the chemical trading business and at the same time grow and diversify the Company's revenue and earnings streams in the succeeding years.

Recent Events

Previously on 9 June 2017, the Company's stockholders approved the first tranche of the increase in authorized capital stock to 3,985,000,000 Common Shares and the conduct of a stock rights offering to its registered stockholders that is a combination of shares to be issued partially from the Company's unissued capital stock and partially from the increase in the Company's authorized capital stock (Offer Structure), with the Board of Directors further fixing the size of rights offer to cover up to a total of 845,487,000 common shares.

In its meeting of July 14, 2017, the Board of Directors deemed it to be in the best interest of the Corporation to change the Offer Structure earlier approved by the Board to provide for the separate conduct of the stock rights offering to be issued solely from the Corporation's existing unissued capital stock and those subsequently to be issued from the new shares to be created from the increase in authorized capital stock to be undertaken by the Company to provide for a more expedient solution to help accelerate the regulatory process so the Company may pursue the intended projects it is eyeing within its timetable. In this connection, the Board approved an initial Stock Rights Offering ("Offer") comprising of up to 302,000,000 common shares with a par value of P1.00 per share from the existing unissued shares of the Corporation for subscription of existing holders of Common Shares of the Company. The Offer is intended raise to up to One Billion Five Hundred Million Pesos (Php1,500,000,000.00) in gross proceeds.

On July 18, 2017, the Company filed its application for the Offer with the Securities and Exchange Commission and Philippine Stock Exchange.

On July 17, 2017, stock dividends comprising of 47,999,999 common shares were distributed and paid by the Company. This brings the Company's total shares issued and outstanding to-date to 1,247,999,999 common shares.

On July 10, 2017, the Company's subsidiary subscribed to a 17.5% equity interest in Scott Holdings Corporation ("SHC") for P46,375,000.00. SHC is owner of a 1.8-hectare prime commercial land in Bacolod City.

On August 10, 2017, the Company's subsidiary subscribed to the following shareholdings interests in affiliate property holdings companies: The share subscriptions were based on their par value.

- (i) 17% equity interests in Aresa Holdings Corporation for P48,875,000.00;
- (ii) 17% equity interests in Morechester Phils. Inc. for P6,459,800.00;
- (iii) 22% equity interests in Apschester Holdings Corp. for P12,100,000.00;
- (iv) 17% equity interests in Asida Holding Corp. for P3,750,000.00; and
- (v) 17% equity interests in Mansfield Holdings Corp. for P119,000,000.00.

On August 14, 2017, the Board of Directors approved to reallocate a total of P 450 million of the unutilized IPO Proceeds for the acquisition either of a warehouse facility complex or separately for the purchase of real estate property or a company holding such realty property and capital expenditure for the purchase or construction of a warehouse building which were previously intended for the strategic acquisition of businesses (P350 million) and facility improvements (P 100 million) from the remaining unutilized balance of the IPO proceeds.

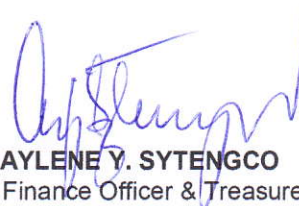
NONE

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized in Quezon City on August 14, 2017.



GERRY D. TAN
President & Chief Executive Officer



AYLENE Y. SYTENGCO
Chief Finance Officer & Treasurer

SBS PHILIPPINES CORPORATION AND SUBSIDIARY
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND DECEMBER 31, 2016
(Amounts in Philippine Pesos)

ANNEX "A"

	Notes	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	1	P 2,726,987,404	P 1,383,113,717
Trade and other receivables	3	390,911,131	98,982,001
Inventories – net	1	1,179,394,928	1,313,141,596
Prepayments and other current assets	6	385,065,090	145,744,754
Total Current Assets		4,682,358,553	2,940,982,068
NON-CURRENT ASSETS			
Property and equipment – net	7	23,103,643	20,417,671
Investment properties	8	632,066,450	632,019,207
Deferred tax assets – net	1	8,025,115	4,521,287
Investments in associates	5	654,919,766	147,964,483
Held-to-maturity investments	4	244,740,000	244,740,000
Total Non-current Assets		1,562,854,974	1,049,662,648
TOTAL ASSETS		P 6,245,213,527	P 3,990,644,716
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Loans payable	10	P 717,500,000	P 467,500,000
Trade and other payables	9	225,442,575	307,100,775
Income tax payable		10,014,053	-
Total Current Liabilities		952,956,628	774,600,775
NON-CURRENT LIABILITIES			
Loans payable	10	1,990,446,264	-
Post-employment defined benefit obligation	1	8,160,055	8,160,055
Total Non-current Liabilities		1,998,606,319	8,160,055
Total Liabilities		2,951,562,947	782,760,830
EQUITY			
Capital stock	13	1,200,000,000	1,200,000,000
Additional paid-in capital	1	900,714,680	898,425,433
Revaluation reserves		(4,068,878)	(4,068,878)
Retained earnings	13	908,524,784	1,143,501,171
Stock dividends distributable		288,479,994	-
Treasury shares	13	-	(29,973,840)
Total Equity		3,293,650,580	3,207,883,886
TOTAL LIABILITIES AND EQUITY		P 6,245,213,527	P 3,990,644,716

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION AND SUBSIDIARY
(A Subsidiary of Anesys Holdings Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Pesos)
(UNAUDITED)

	Notes	April to June		January to June	
		Group 2017 (see Note 1)	Parent Company 2016 (see Note 1)	Group 2017 (see Note 1)	Parent Company 2016 (see Note 1)
SALE OF GOODS	11	P 250,777,703	P 266,326,335	P 512,701,509	P 517,102,486
COST OF GOODS SOLD	1	<u>188,926,327</u>	<u>217,859,366</u>	<u>383,725,434</u>	<u>400,859,493</u>
GROSS PROFIT		<u>61,851,376</u>	<u>48,466,969</u>	<u>128,976,075</u>	<u>116,242,993</u>
OTHER OPERATING INCOME (EXPENSES)					
Other operating expenses	7, 8, 11	(44,274,637)	(27,756,050)	(75,900,846)	(53,413,990)
Other operating income	8	<u>16,085,847</u>	<u>27,250,337</u>	<u>16,085,847</u>	<u>54,248,731</u>
		<u>(28,188,790)</u>	<u>(505,713)</u>	<u>(59,814,999)</u>	<u>834,741</u>
OPERATING PROFIT		33,662,586	47,961,256	69,161,076	117,077,734
FINANCE INCOME (COSTS) – NET	4, 9, 10, 11	3,284,619	991,410	4,863,274	(4,071,850)
GAIN ON SALE OF INVESTMENT PROPERTIES	8	-	826,273,802	-	826,273,802
EQUITY IN NET LOSSES OF ASSOCIATES	5	<u>3,063,226</u>	<u>73,450</u>	<u>3,929,267</u>	<u>120,409</u>
PROFIT BEFORE TAX		33,883,979	875,153,018	70,095,083	939,159,277
TAX EXPENSE	1	<u>7,552,617</u>	<u>11,349,823</u>	<u>16,591,476</u>	<u>28,495,832</u>
NET PROFIT		26,331,362	863,803,195	53,503,607	910,663,445
OTHER COMPREHENSIVE INCOME (LOSS)		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u>P 26,331,362</u>	<u>P 863,803,195</u>	<u>P 53,503,607</u>	<u>P 910,663,445</u>
EARNINGS PER SHARE	13				
Basic		<u>P 0.02</u>	<u>P 0.72</u>	<u>P 0.04</u>	<u>P 0.76</u>
Diluted		<u>P 0.02</u>	<u>P 0.72</u>	<u>P 0.04</u>	<u>P 0.76</u>

See Notes to Financial Statements.



SBS PHILIPPINES CORPORATION AND SUBSIDIARY
(A Subsidiary of Anesy Holdings Corporation)
 STATEMENTS OF CHANGES IN EQUITY
 FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Pesos)
 (UNAUDITED)

	<u>Capital Stock</u> <u>(see Note 13)</u>	<u>Additional</u> <u>Paid-in Capital</u>	<u>Treasury Shares</u> <u>(see Note 13)</u>	<u>Retained Earnings</u> <u>(see Note 13)</u>	<u>Stock</u> <u>Dividends</u> <u>(see Note 13)</u>	<u>Revaluation</u> <u>Reserves</u>	<u>Total</u> <u>Equity</u>
Group (see Note 1)							
Balance at January 1, 2017	P 1,200,000,000	P 898,425,433	(P 29,973,840)	P 1,143,501,171	P -	(P 4,068,878)	P 3,207,883,886
Acquisition of treasury shares	-	-	(168,974,313)	-	-	-	(168,974,313)
Reissuance of treasury shares	-	2,289,247	198,948,153	-	-	-	201,237,400
Stock dividends for the period	-	-	-	(288,479,994)	288,479,994	-	-
Total comprehensive income for the period	-	-	-	53,503,607	-	-	53,503,607
Balance at June 30, 2017	<u>P 1,200,000,000</u>	<u>P 900,714,680</u>	<u>P -</u>	<u>P 908,524,784</u>	<u>P 288,479,994</u>	<u>(P 4,068,878)</u>	<u>P 3,293,650,580</u>
Parent Company (see Note 1)							
Balance at January 1, 2016	P 1,200,000,000	P 898,425,433	P -	P 176,381,186	P -	(P 3,720,185)	P 2,271,086,434
Cash dividends	-	-	-	(44,400,000)	-	-	(44,400,000)
Total comprehensive income for the period	-	-	-	910,663,445	-	-	910,663,445
Balance at June 30, 2016	<u>P 1,200,000,000</u>	<u>P 898,425,433</u>	<u>P -</u>	<u>P 1,042,644,631</u>	<u>P -</u>	<u>(P 3,720,185)</u>	<u>P 3,137,349,879</u>

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION AND SUBSIDIARY
(A Subsidiary of Anesy Holdings Corporation)
STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 30, 2017 AND 2016
(Amounts in Philippine Pesos)
(UNAUDITED)

	<u>Notes</u>	<u>Group 2017 (see Note 1)</u>	<u>Parent Company 2016 (see Note 1)</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 70,095,083	P 939,159,277
Adjustments for:			
Interest expense		10,439,535	13,319,094
Dividend income	4	(6,822,128)	(3,411,064)
Unrealized forex losses (gains)		(4,328,905)	86,675
Depreciation and amortization	7	2,924,421	3,070,954
Share in net loss of associates	5	3,929,267	120,409
Interest income		(1,731,890)	(4,732,113)
Gain on sale of Investment properties	8	-	(826,273,802)
Operating profit before working capital changes		<u>74,505,383</u>	121,339,430
Increase in trade and other receivables		(291,929,130)	(6,897,260)
Decrease in inventories		133,746,667	148,076,223
Increase in prepayments and other current assets		(240,733,381)	(3,726,873)
Increase (decrease) in trade and other payables		(81,658,200)	5,855,878
Cash generated from (used in) operations		(406,068,661)	264,647,398
Cash paid for income taxes		(8,668,205)	(27,384,570)
Net Cash From (Used in) Operating Activities		(414,736,866)	237,262,828
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment in associates	5	(510,884,550)	(38,750,000)
Cash dividends received	4	6,822,128	3,411,064
Acquisition of property and equipment	7	(5,610,393)	(3,622,431)
Interest received		1,731,890	4,732,113
Acquisition of investment properties	8	(47,243)	(65,848)
Proceeds from sale of investment properties	8	-	1,149,607,986
Net Cash From (Used In) Investing Activities		(507,988,168)	1,115,312,884
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of loans	10	2,350,000,000	100,000,000
Disposal of treasury shares	13	201,237,400	-
Acquisition of treasury shares	13	(168,974,313)	-
Settlement of loans	10	(100,000,000)	(1,330,000,000)
Interest paid		(10,439,535)	(13,319,094)
Payment of dividends	13	-	(44,400,000)
Net Cash From (Used in) Financing Activities		<u>2,271,823,552</u>	(1,287,719,094)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		<u>4,328,905</u>	(86,675)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		1,353,427,423	64,769,943
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
		<u>1,383,113,717</u>	837,551,006
CASH AND CASH EQUIVALENTS AT END OF PERIOD			
		<u>P 2,736,541,140</u>	<u>P 902,320,949</u>

Supplemental Information on Non-cash Financing Activity -

On June 9, 2017, the shareholders representing at least 2/3 of the outstanding capital stock of the Parent Company approved the declaration of stock dividends equivalent to 48.0 million common shares (see Note 12.2). The stock dividends were subsequently distributed to the shareholders on July 17, 2017 (see Note 18).

See Notes to Financial Statements.

SBS PHILIPPINES CORPORATION

SELECTED NOTES TO FINANCIAL STATEMENTS

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 periods 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 SBS Philippines Corporation (the Parent Company) and subsidiary (together with the Parent Company, collectively referred to herein as the Group) 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.

SBS Holdings Enterprises Corporation (SBS Holdings) 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 as of June 30, 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended June 30, 2016 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 but had no material effect on the Group's financial statements:

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 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 1.4).

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 Associates 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 1.16).

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 presented in the succeeding page.

(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 Assets section 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 1.16).

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 2.1(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 1.16).

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 properties are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, 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 1.16).

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, 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 1.18).

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 carry forward 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 12, 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 and reissuance of treasury shares. 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.

Stock dividends distributable pertains to the nominal value of shares which are declared as stock dividends but have not been issued.

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.

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.

2.1 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.

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

The Group determines whether significant influence exists in investment where the Group 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) and 17.6% in Goldchester Holdings Corporation (GHC) as of June 30, 2017, the Group considers IBHC and GHC as associates due to the presence of significant influence, but not control, over IBHC and GHC's operations since the Parent Company's Chairman of the Board of Directors (BOD) is also a director of IBHC and GHC (see Note 5).

(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 1.12 and disclosures on relevant provisions and contingencies are presented in Note 13.

2.2 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 periods ended June 30, 2017 and 2016 based on its assessment of the collectability of the accounts (see Note 3).

(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 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 June 30, 2017 and December 31, 2016.

(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 7. Based on management's assessment as at June 30, 2017 and December 31, 2016, 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 1.16). 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 periods ended June 30, 2017 and 2016 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 8 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.

(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 June 30, 2017 and December 31, 2016 will be fully utilized subsequently.

3. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Note</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Trade receivables	11.1	P 109,250,673	P 85,983,587
Advances		251,420,117	-
Other receivables		<u>30,240,341</u>	<u>12,998,414</u>
		<u>P 390,911,131</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 indications of impairment. Based on management's assessment, no impairment loss should be recognized for the periods ended June 30, 2017 and 2016.

Advances pertains to the advance payment made by the Company for the purchase of a certain property. The transaction is yet to be completed as of June 30, 2017.

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.

The Group received dividend income amounting to P6.8 million and P3.4 million for the periods ended June 30, 2017 and 2016, respectively, from its HTM investments and is presented as part of Finance Income (Costs) – net in the statements of comprehensive income.

5. INVESTMENT IN ASSOCIATES

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

	<u>% Interest Held</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
GHC*	17.6%	P 479,130,862	P -
Lakerfield Phils. Holding Corp. (LPHC)**	37.0%	55,568,821	56,340,763
Cleon Phils. Holding Corporation (CPHC)**	37.2%	46,216,548	46,224,648
Ayschester Holdings Corporation (AHC) **	25.0%	35,251,142	36,424,652
Icare Holdings Corporation (ICHC)*	25.0%	19,251,533	-
Milia Holdings Corporation MHC)*	29.0%	10,641,299	-
IBHC**	17.0%	8,859,561	8,974,420
		<u>P 654,919,766</u>	<u>P 147,964,483</u>

* *Associates of SBS Holdings*

** *Associates of Parent Company*

A reconciliation of the carrying amounts of investments in associates at the beginning and end of the periods of June 30, 2017 and December 31, 2016 is shown below:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Balance at beginning of year	P 147,964,483	P 18,113,172
Additions	510,884,550	152,012,500
Disposals	-	(18,113,172)
Equity in net losses	(3,929,267)	(4,048,017)
	<u>P 654,919,766</u>	<u>P 147,964,483</u>

The Group'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. For the periods ended June 30, 2017 and 2016, the Parent Company recognized its share in the net losses of the Investee companies in the total amount of P3.9 million and P0.1 million, respectively, and is presented as Equity in Net Losses of Associates in the statements of comprehensive income.

The total amount of the assets, liabilities, expenses and net loss of these investee companies are reported in the succeeding page:

	<u>Assets</u>		<u>Liabilities</u>		<u>Expenses</u>		<u>Net Loss</u>
June 30, 2017:							
AHC	P 462,647,380	P	318,843,285	P	6,705,771	P	4,649,039
CPHC	124,349,061		1,495		33,290		21,746
LPHC	405,350,781		257,505,538		2,339,499		2,086,329
IBHC	143,750,803		90,973,569		965,638		675,641
GHC	1,918,298,333		1,929,033,970		9,353,074		9,342,566
ICHC	106,438,963		29,644,490		917,768		493,868
MHC	36,563,050		-		436,950		305,865
December 31, 2016:							
AHC	P 458,337,967	P	312,639,357	P	9,301,390	P	9,301,390
CPHC	46,245,980		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. PREPAYMENTS AND OTHER CURRENT ASSETS

This account is composed of the following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Investment subscription	P 257,592,565	P -
Input VAT	116,913,900	131,707,662
Creditable withholding tax	-	7,880,786
Others	<u>10,558,625</u>	<u>6,156,306</u>
	<u>P 385,065,090</u>	<u>P 145,744,754</u>

Investment subscription pertains to deposit for future subscription made by SBS Holdings in certain affiliate companies that are yet to be completed or executed as of June 30, 2017. Others pertain mainly to advance payments made on real property taxes, insurance premiums and security deposits.

7. 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 presented in the succeeding page.

	<u>Transportation Leasehold Improvements</u>	<u>and Other Equipment</u>	<u>Furniture and Fixtures</u>	<u>Total</u>
June 30, 2017				
Cost	P 6,842,022	P 50,996,879	P 4,536,724	P 62,375,625
Accumulated depreciation and amortization	(3,347,810)	(32,047,007)	(3,877,165)	(39,271,982)
Net carrying amount	<u>P 3,494,212</u>	<u>P 18,949,872</u>	<u>P 659,559</u>	<u>P 23,103,643</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	(3,090,017)	(29,501,313)	(3,756,231)	(36,347,561)
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>
January 1, 2016				
Cost	P 6,744,206	P 34,752,279	P 4,256,754	P 45,753,239
Accumulated depreciation and amortization	(2,559,738)	(24,365,677)	(3,304,658)	(30,230,073)
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 as follows:

	<u>Leasehold Improvements</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 amortization	P 3,752,005	P 15,964,673	P 700,993	P 20,417,671
Additions	-	5,530,893	79,500	5,610,393
Depreciation and amortization charges for the year	(257,793)	(2,545,694)	(120,934)	(2,924,421)
Balance at June 30, 2017, net of accumulated depreciation and amortization	<u>P 3,494,212</u>	<u>P 18,949,872</u>	<u>P 659,559</u>	<u>P 23,103,643</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	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 charges for the year	(530,279)	(5,135,636)	(451,573)	(6,117,488)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<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 June 30, 2017 and December 31, 2016, depreciation and amortization is presented under Other Operating Expenses in the statements of comprehensive income.

As of June 30, 2017 and December 31, 2016, the gross amount of the Group's fully depreciated and amortized property and equipment that are still in use is P27.1 million and P21.3 million, respectively.

8. INVESTMENT PROPERTIES

The Group's investment properties represent parcels of land held for investments and capital appreciation. A reconciliation of the carrying amount of investment properties at the beginning and end of June 30, 2017 and December 31, 2016 is shown below.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Balance at beginning of period	P 632,019,207	P 955,287,542
Additions	47,243	-
Disposals during the period	<u>-</u>	<u>(323,268,335)</u>
Balance at end of period	<u>P 632,066,450</u>	<u>P 632,019,207</u>

Rental revenues earned by the Parent Company from lease and sub-lease transactions, amounting to P54.2 million for the period ended June 30, 2016, was presented as Other Operating Income in the 2016 statement of comprehensive income. The real property tax on investment properties amounting to P0.4 million and P1.4 million for the periods ended June 30, 2017 and 2016, respectively, 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 account in the statement of comprehensive income for the period ended June 30, 2016.

The carrying amount of investment properties as of December 31, 2016 are used as collateral to secure certain long-term loans from local banks (see Note 9). 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 December 31, 2016 amounted to P2.1 billion. The Group's management believes that these investment properties hold the same fair market value as of June 30, 2017 by reference to current and most recent prices for similar property in the same location and condition

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.

9. TRADE AND OTHER PAYABLES

	Notes	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Trust receipts payable	2	P 137,570,480	P 226,307,624
Trade payables		40,849,246	22,953,468
Security deposits and advance rentals		1,870,557	2,684,457
Accrued expenses and others	11.2, 11.4 14.2	<u>45,152,292</u>	<u>55,155,226</u>
		<u>P 225,442,575</u>	<u>P 307,100,775</u>

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 June 30, 2017 and 2016.

Interest expense incurred on these transactions for the periods ended June 30, 2017 and 2016 amounted to P2.0 million and P1.6 million, respectively, and is presented as part of Interest expense under Finance Income (Costs) – net in the statements of comprehensive income. There is no unpaid interest as of June 30, 2017 and December 31, 2016.

10. LOANS PAYABLE

This account includes the following as at June 30, 2017 and December 31, 2016.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Current	P 717,500,000	P 467,500,000
Non-current	<u>2,000,000,000</u>	<u>-</u>
	<u>P 2,717,500,000</u>	<u>P 467,500,000</u>

A reconciliation of the movements in the amount of loans payable at the beginning and end of June 30, 2017 and December 31, 2016 as follows.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Balance at beginning of period	P 467,500,000	P 1,367,500,000
Availments during the period	2,350,000,000	520,000,000
Settlements made	<u>(100,000,000)</u>	<u>(1,420,000,000)</u>
	<u>P 2,717,500,000</u>	<u>P 467,500,000</u>

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 4.88% for periods ended June 30, 2017 and December 31, 2016 and the proceeds from which were used for working capital requirements.

The details of the bank loans as of December 31, 2016 are as follows:

Principal amount	P	2,717,500,000
Debt issue cost		<u>10,000,000</u>
Net amount		2,707,500,000
Amortization		<u>446,264</u>
Balance as of June 30, 2017	P	<u>2,707,946,264</u>

Interest expense incurred on these loans for the periods ended June 30, 2017 and 2016 amounted to P8.4 million and P12.5 million, respectively, and is presented as part of Interest expense under Finance Income (Costs) – net in the statements of comprehensive income. There is no unpaid interest as of June 30, 2017 and December 31, 2016.

11. 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.

Note	Amount of Transactions		Outstanding Balances		
	June 30, 2017	June 30, 2016	June 30, 2017	December 31, 2016	
Related Parties Under Common Ownership					
Sale of goods	11.1	P 4,962,017	P 4,681,036	P -	P 5,242,760
Lease agreements	11.2	16,608,885	6,754,556	-	-
Shared business & management services	11.3	893,368	889,536	-	-
Equity investment in investee companies	11.5	510,884,550	38,750,000	654,919,766	147,964,483
Key Management Personnel and Others					
Fees paid	11.4	1,730,267	8,038,912	-	-

Based on management's assessment, receivables from related parties are not impaired as of June 30, 2017 and December 31, 2016.

11.1 Sale of Goods

For the periods ended June 30, 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 BOD Chairman, which is presented as part of Sale of Goods in the statements of comprehensive income. The outstanding receivable arising from this transaction as of December 31, 2016, which is generally non-interest bearing, unsecured and settled through cash, is presented as part of Trade receivables under the Trade and Other Receivables account in the 2016 statement of financial position (see Note 3). There is no outstanding receivable from this transaction as of June 30, 2017.

11.2 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 BOD, covering certain warehouses with an average term of one to three years.

Rental expense for the periods ended June 30, 2017 and 2016 arising from the foregoing lease agreements is shown under Other Operating Expenses in the statements of comprehensive income. There were no outstanding rentals as of June 30, 2017 and December 31, 2016.

11.3 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 under the Finance Income (Costs) – net account in the statements of comprehensive income. There is no outstanding receivable from this transaction as of June 30, 2017 and December 31, 2016.

11.4 Payments to Key Management Personnel

Payments received by key management personnel pertain to service fees for the periods ended June 30, 2017 and 2016, which is presented under Other Operating Expenses in the statements of comprehensive income. There were no outstanding service fees as of June 30, 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 BOD. 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 June 30, 2017, there were no existing cross surety arrangements between the Group and any of its related parties (see Note 13.3).

12. SEGMENT REPORTING

12.1 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 Group's three main revenue sources, which represent the products and services provided by the Group, namely Sale of Goods, Rental Income and Investment Income.

12.2 Analysis of Segment Information

The tables below and in the succeeding page present revenue and profit information regarding business segments of the Group for the periods ended June 30, 2017 and 2016:

	<u>June 30, 2017</u>			
	<u>Sale of Goods</u>	<u>Rental Income</u>	<u>Investment Income</u>	<u>Total</u>
Revenues	P 512,701,509	P 16,085,847	P 6,822,128	P 535,609,484
Cost	<u>383,725,434</u>	<u>389,206</u>	<u>-</u>	<u>384,114,640</u>
	<u>67,124,699</u>	<u>15,696,641</u>	<u>6,822,128</u>	<u>151,494,844</u>
Other operating expenses:				
Rental expense	16,608,885	-	-	16,608,885
Salaries and wages	14,115,709	-	-	14,115,709
Outside services	2,687,293	-	-	2,687,293
Insurance	2,397,787	-	-	2,397,787
Transportation and travel	1,881,360	-	-	1,881,360
Commission	493,527	-	-	493,527
Advertising and promotions	<u>133,989</u>	<u>-</u>	<u>-</u>	<u>133,989</u>
	<u>38,318,550</u>	<u>-</u>	<u>-</u>	<u>38,318,550</u>
Segment profit before depreciation and amortization	<u>P 90,657,525</u>	<u>P 15,696,641</u>	<u>P 6,822,128</u>	<u>P 113,176,294</u>
	<u>June 30, 2016</u>			
	<u>Sale of Goods</u>	<u>Rental Income</u>	<u>Investment Income</u>	<u>Total</u>
Revenues	P 517,102,486	P 54,248,731	P 3,411,064	P 574,762,281
Cost	<u>400,859,493</u>	<u>1,419,912</u>	<u>-</u>	<u>402,279,405</u>
	<u>116,242,993</u>	<u>52,828,819</u>	<u>3,411,064</u>	<u>172,482,876</u>
Other operating expenses:				
Salaries and wages	12,018,250	-	-	12,018,250
Outside services	2,893,353	-	-	2,893,353
Transportation and travel	3,158,614	-	-	3,158,614
Insurance	3,376,727	-	-	3,376,727
Advertising and promotions	821,519	-	-	821,519
Commission	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
	<u>22,468,463</u>	<u>-</u>	<u>-</u>	<u>22,468,463</u>
Segment profit before depreciation and amortization	<u>P 93,774,530</u>	<u>P 52,828,819</u>	<u>P 3,411,064</u>	<u>P 150,014,413</u>

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

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>
Revenues:		
Total revenue of reportable segments	<u>P 535,609,484</u>	<u>P 574,762,281</u>
Costs and expenses:		
Total costs and expenses of reportable segments	422,433,190	424,747,868
Other costs and expenses from non-reportable segments	38,197,936	26,575,070
Depreciation and amortization	<u>2,924,421</u>	<u>3,070,954</u>
	<u>463,555,547</u>	<u>454,393,892</u>
Finance costs – net	<u>1,958,854</u>	<u>7,482,914</u>
Gain on sale of investment properties	<u>-</u>	<u>826,273,802</u>
Profit before tax	<u>P 70,095,083</u>	<u>P 939,159,277</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.

13. EQUITY

13.1 Capital Stock

Capital stock consists of common shares with details shown in the succeeding page.

	<u>Shares</u>		<u>Amount</u>	
	<u>June 30,</u> <u>2017</u>	December 31, 2016	<u>June 30,</u> <u>2017</u>	December 31, 2016
Authorized – P1 par value	<u>1,550,000,000</u>	<u>1,550,000,000</u>	<u>P1,550,000,000</u>	<u>P 1,550,000,000</u>
Issued and outstanding				
Balance at beginning of period	1,194,545,600	1,200,000,000	P1,176,026,160	P 1,200,000,000
Acquisition of treasury shares	(25,505,200)	(5,454,400)	(168,974,313)	(29,973,840)
Reissuance of treasury shares	<u>30,959,600</u>	<u>-</u>	<u>198,948,153</u>	<u>-</u>
Balance at end of period	<u>1,200,000,000</u>	<u>1,194,545,600</u>	<u>P1,200,000,000</u>	<u>P 1,170,026,160</u>

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.

On June 9, 2017, the Company's stockholders approved the first tranche of the increase in authorized capital stock to 3,985,000,000 Common Shares and the conduct of a stock rights offering to its registered stockholders that is a combination of shares to be issued partially from the Company's unissued capital stock and partially from the increase in the Company's authorized capital stock (Offer Structure), with the BOD further fixing the size of rights offer to cover up to a total of 845,487,000 common shares.

On June 23, 2017, all of the treasury shares were sold by way of a block sale through the facilities of the PSE at an agreed price of P6.50 per share. The price represents a premium of 2.85% from its last traded price of P6.32 as of the close of trading on June 22, 2017 and 2.05% premium over the 5-day volume weighted average price of P6.3696 from June 21, 2017. The treasury shares were reissued above its acquisition cost, resulting in additional paid-in capital of P2.3 million. The proceeds from the sale will be used for general corporate purposes and capital expenditures. The treasury share sale represents a 2.58% shareholding interests.

As of June 30, 2017 and 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 June 30, 2017.

13.2 Retained Earnings

On May 12, 2016, the Parent Company's BOD approved the declaration of cash dividends amounting to P44.4 million. There are no outstanding dividends payable as of June 30, 2017 and December 31, 2016.

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 has been fully expended. On April 11, 2017, the BOD approved a new share buyback program with a volume of up to another P200 million. As of December 31, 2016, the Parent Company has outstanding treasury shares of 5,454,400 with cost amounting to P30.0 million. Meanwhile, the Parent Company has no outstanding treasury shares as of June 30, 2017 due to subsequent reissuance of treasury shares in 2017 (see Note 12.1).

On June 9, 2017, the shareholders representing at least 2/3 of the outstanding capital stock of the Parent Company approved the declaration of stock dividends to be payable at the rate of one (1) common share for every twenty-five (25) common shares owned by shareholders as of record date (or approximately up to 48.0 million common shares based on total outstanding shares as of June 23, 2017) with any resulting fractional shares to be dropped. The issuance of the stock dividends is an exempt transaction under Section 10.1(d) of the Securities Regulation Code, as amended and do not require any written confirmation of exemption from the SEC. Such stock dividends were subsequently distributed to the shareholders on July 17, 2017 (see Note 18).

13.3 Earnings per Share

Basic EPS is computed as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Income available to common shares	P 53,503,607	P 910,663,445
Divided by the weighted average number of outstanding common shares	<u>1,197,272,250</u>	<u>1,200,000,000</u>
Basic earnings per share	<u>P 0.04</u>	<u>P 0.76</u>

Meanwhile, diluted EPS for the period ended June 30, 2017 is computed as follows:

Income available to common shares	P 53,503,607
Divided by the weighted average number of outstanding common shares	<u>1,245,272,250</u>
Diluted earnings per share	<u>P 0.04</u>

There are no potentially dilutive shares for the period ended June 30, 2016.

14. COMMITMENTS AND CONTINGENCIES

14.1 Operating Lease Commitments – Company as Lessor

Certain real properties held by the Group as investment properties are provisionally leased out for certain minor incidental uses under an operating lease agreement in 2016. The leases have a maximum term of one year, with an option to renew under terms and conditions to be agreed upon by the parties. Such lease agreement was discontinued starting in 2017.

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 P1.8 million and P2.7 million as of June 30, 2017 and December 31, 2016, respectively, and are presented under Trade and Other Payables account in the statements of financial position.

14.2 Operating Lease Commitments – Company as Lessee

The Group is a lessee under various operating lease agreements with certain related parties covering certain warehouses. In 2016, the lease agreements were renewed for one year term renewable annually with a new rental fee. The future minimum lease payable within one year under these non-cancellable operating leases amounted to P17.6 million and P28.5 million as of June 30, 2017 and December 31, 2016, respectively.

Rentals incurred amounting to P16.6 million for the period ended June 30, 2017 and P7.1 million for the period ended June 30, 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 account in the 2016 statement of financial position. There was no outstanding liability arising from these transactions as of June 30, 2017.

14.3 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 BOD Chairman in his capacity as controlling shareholder of the group. There was no balance from these credit lines as of June 30, 2017 and December 31, 2016, respectively.

14.4 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 June 30, 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.

15. 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 in the succeeding pages.

15.1 Interest Rate Risk

The Group's policy is to minimize interest rate cash flow risk exposures on long-term financing. As at June 30, 2017 and December 31, 2016, the Group is exposed to changes in market interest rates through its loans payable (see Note 9) and cash in banks, which are subject to variable interest rates.

15.2 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 credit worthy 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.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Cash and cash equivalents	P 2,726,987,404	P 1,383,113,717
HTM investments	244,740,000	244,740,000
Trade and other receivables	<u>390,911,131</u>	<u>98,982,001</u>
	<u>P 3,362,638,535</u>	<u>1,726,835,718</u>

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

(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 Republic Act 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. No amounts related to investment in debts securities are past due.

15.3 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 June 30, 2017, the Group's financial liabilities have contractual maturities as follows:

	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>More than 1 Year</u>
Trade and other payables	P 225,442,575	P -	P -
Loans payable	<u>722,082,812</u>	<u>-</u>	<u>2,225,000,000</u>
	<u>P 947,525,387</u>	<u>P -</u>	<u>P 2,225,000,000</u>

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

	<u>Within 6 Months</u>	<u>6 to 12 Months</u>	<u>More than 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>
	<u>P 758,318,103</u>	<u>P 22,845,313</u>	<u>P -</u>

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.

16. 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 June 30, 2017 and December 31, 2016 is presented below.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Liabilities	P 2,961,116,683	P 782,760,830
Equity	<u>3,284,096,844</u>	<u>3,207,883,886</u>
Debt-to-equity ratio	<u>0.90 : 1.00</u>	<u>0.24 : 1.00</u>

17. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

17.1 *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 below.

	Notes	<u>June 30, 2017</u>		<u>December 31, 2016</u>	
		<u>Carrying Values</u>	<u>Fair Values</u>	<u>Carrying Values</u>	<u>Fair Values</u>
<i>Financial assets</i>					
Loans and receivables:					
Cash and cash equivalents		P2,726,987,404	P2,726,987,404	P 1,383,113,717	P1,383,113,717
Trade and other receivables	3	<u>390,911,131</u>	<u>390,911,131</u>	<u>98,982,001</u>	<u>98,982,001</u>
		3,117,898,535	3,117,898,535	1,482,095,718	1,482,095,718
HTM investments –					
Debt securities	4	<u>244,740,000</u>	<u>255,998,040</u>	<u>244,740,000</u>	<u>265,787,640</u>
		<u>P3,362,638,535</u>	<u>P3,373,896,575</u>	<u>P 1,726,835,718</u>	<u>P1,747,883,358</u>
<i>Financial liabilities</i>					
Financial liabilities at amortized cost:					
Loans payable	9	P2,707,946,264	P2,707,946,264	P 467,500,000	P 467,500,000
Trade and other payables	12	<u>225,442,575</u>	<u>225,442,575</u>	<u>306,978,786</u>	<u>306,978,786</u>
		<u>P2,933,388,839</u>	<u>P2,933,388,839</u>	<u>P 774,478,786</u>	<u>P 774,478,786</u>

See Notes 1.5 and 1.10 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.

17.2 *Offsetting of Financial Assets and Financial Liabilities*

The Group has not set-off financial instruments as of June 30, 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.

18. FAIR VALUE MEASUREMENT AND DISCLOSURES

18.1 *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:

- a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- b) 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,
- c) 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.

18.2 *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 June 30, 2017 and December 31, 2016 statements of financial position but for which fair value is disclosed.

	<u>June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial assets:</i>				
Cash and cash equivalents	P2,726,987,404	P -	P -	P 2,726,987,404
Trade and other receivables	-	-	390,911,131	390,911,131
Debt security – HTM investment	<u>255,998,040</u>	<u>-</u>	<u>-</u>	<u>255,998,040</u>
	<u>P2,982,985,444</u>	<u>P -</u>	<u>P 390,911,131</u>	<u>P3,373,896,575</u>
<i>Financial liabilities:</i>				
Trade and other payables	P -	P -	P 225,442,575	P 225,442,575
Loans payable	<u>2,707,946,264</u>	<u>-</u>	<u>-</u>	<u>2,707,946,264</u>
	<u>P2,707,946,264</u>	<u>P -</u>	<u>P 225,442,575</u>	<u>P2,933,388,839</u>
	<u>December 31, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial assets:</i>				
Cash and cash equivalents	P1,383,113,717	P -	P -	P 1,383,113,717
Trade and other receivables	-	-	98,982,001	98,982,001
Debt security – HTM investment	<u>265,787,640</u>	<u>-</u>	<u>-</u>	<u>265,787,640</u>
	<u>P1,648,901,357</u>	<u>P -</u>	<u>P 98,982,001</u>	<u>P 1,747,883,358</u>
<i>Financial liabilities:</i>				
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.

18.3 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 June 30, 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 7).

19. EVENTS AFTER REPORTING DATE

In its meeting dated July 14, 2017, the BOD deemed it to the best interest of the Corporation to change the Offer Structure earlier approved by the BOD to provide for the separate conduct of the stock rights offering to be issued solely from the Corporation's existing unissued capital stock and those subsequently to be issued from the new shares to be created from the increase in authorized capital stock to be undertaken by the Company to provide for a more expedient solution to help accelerate the regulatory process so the Company may pursue the intended projects it is eyeing within its timetable. In this connection, the BOD approved an initial Stock Rights Offering ("Offer") comprising of up to 302,000,000 common shares with a par value of P1.00 per share from the existing unissued shares of the Corporation for subscription of existing holders of Common Shares of the Company. The Offer is intended raise to up to One Billion Five Hundred Million Pesos (Php1,500,000,000.00) in gross proceeds.

On July 18, 2017, the Company filed its application for the Offer with SEC and PSE.

On July 17, 2017, stock dividends comprising of 47,999,999 common shares were distributed and paid by the Company. This brings the Company's total shares issued and outstanding to-date to 1,247,999,999 common shares.

On July 10, 2017, the Company's subsidiary subscribed to a 17.5% equity interest in Scott Holdings Corporation ("SHC") for P46,375,000.00. SHC is the owner of a 1.8-hectare prime commercial land in Bacolod City.

On August 10, 2017, the Company's subsidiary subscribed to the following shareholdings interests in affiliate property holdings companies: The share subscriptions were based on their par value.

- (i) 17% equity interests in Aresa Holdings Corporation for P48,875,000.00;
- (ii) 17% equity interests in Morechester Phils. Inc. for P6,459,800.00;
- (iii) 22% equity interests in Apschester Holdings Corp. for P12,100,000.00;
- (iv) 17% equity interests in Asida Holding Corp. for P3,750,000.00; and
- (v) 17% equity interests in Mansfield Holdings Corp. for P119,000,000.00.

On August 14, 2017, the BOD approved to reallocate a total of P 450 million of the unutilized IPO Proceeds for the acquisition either of a warehouse facility complex or separately for the purchase of real estate property or a company holding such realty property and capital expenditure for the purchase or construction of a warehouse building which were previously intended for the strategic acquisition of businesses (P350.0 million) and facility improvements (P100.0 million) from the remaining unutilized balance of the IPO proceeds.

SBS PHILIPPINES CORPORATION
LIST OF SEC SUPPLEMENTARY SCHEDULES
June 30, 2017

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

Schedule	Content
A	Financial Assets Loans and receivables 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 (Loans and Receivables)

Financial Assets

Name of issuing entity and association of each issue	Amount Shown in the Statements of Financial Position	Income received and accrued
Cash and cash equivalents	P 2,726,987,404	P 1,731,890
Trade and other receivables	<u>390,911,131</u>	<u>-</u>
	<u>P 3,117,898,535</u>	<u>P 1,731,890</u>

SBS PHILIPPINES CORPORATION
SEC Released Amended SRC Rule 68
Annex 68-E
Schedule A (Held-to-maturity Investments)
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	489,480	244,740,000	6,822,128
	<u>489,480</u>	<u>P 244,740,000</u>	<u>P 6,822,128</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

Name and Designation of debtor	Balance at beginning of period	Additions	Deductions		Current	Not Current	Balance at end of period
			Amounts collected	Amounts written off			

NOTHING TO REPORT

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

Description	Beginning Balance	Additions at cost	Deductions		Other changes additions (deductions)	Ending Balance
			Charged to cost and expenses	Charged to other accounts		

NOTHING TO REPORT

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
Term Loan	P 3,200,000,000	P 717,500,000	P 1,990,446,264

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

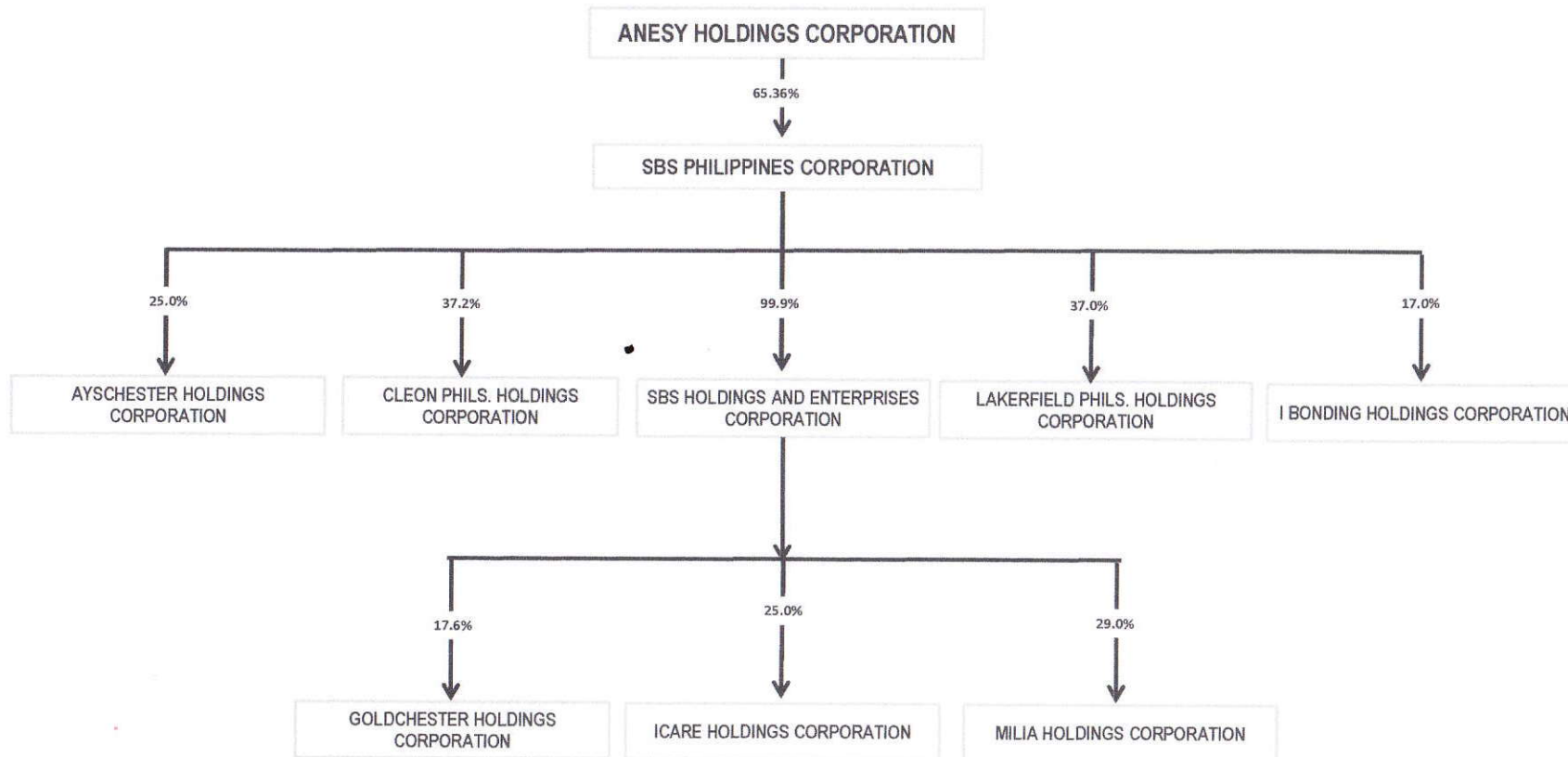
SEC Released Amended SRC Rule 68

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 - P1 par value	1,550,000,000	1,200,000,000	-	789,345,400	113,023,102	297,631,498

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



SBS PHILIPPINES CORPORATION
Schedule of Financial Indicators for June 30, 2017 and 2016

	2017	2016
Liquidity Ratio ¹	491.4%	1003.4%
Debt to Equity Ratio ²	90.2%	11.9%
Asset to Equity Ratio ³	190.2%	111.9%
Return on Assets ⁴	0.9%	27.2%
Return on Equity ⁵	1.6%	43.4%
Cost to Income Ratio ⁶	16.7%	10.3%
Interest Cost Coverage Ratio ⁷	707.9%	7151.3%
Earnings per Share ⁸	PHP 0.04	PHP 0.76

^{1/} *Current Assets over Current Liabilities*

^{2/} *Total Liabilities over Equity*

^{3/} *Total Assets over Equity*

^{4/} *Net Income over Average Assets*

^{5/} *Net Income over Average Equity*

^{6/} *Cost and Expenses over Revenues*

^{7/} *EBIT over Interest Expense*

^{8/} *Net Income over Weighted Average Number of Common Outstanding Shares*

SBS Philippines Corporation

Aging of Trade Receivables

As of June 30, 2017

	Amount	Current	0-30	31-60	61-90	91-120	120-150	151-180	over 180 days
<u>Grand Total</u>	109,250,673	95,345,254	11,626,919	1,691,901	586,600	-	-	-	-
<u>No. of Companies</u>	160	147	34	6	3	-	-	-	-

**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 as of and for the period 30 June 2017 (with comparative figures as of 31 December 2016 and for the period ended 30 June 2016).

Results of Operations (1H 2017 versus 1H 2016)

For the first half of 2017, the Company's net sales amounted to P512.7 million, a decline of 0.9% compared to previous year comparable period of P517.1 million. Improved sales growth was posted for food ingredients, feeds, cosmetics and personal care product segments. However, demand for industrial products remained low, affected by the downdraft from the mining industry and pricing action taken on account of the higher importation and supplier costs.

The Company posted a remarkable improvement on its gross profit from core business in the first half of 2017, which increased by 11.0% year over year as the Company benefitted from the increase in the average sales prices and improvement in the product mix. Showing the benefits of the mix enrichment strategy undertaken, gross margin increased to 25.2% from 22.5%, with market share gains in other product segments cushioning the volume decline in the industrial products.

Operating profit on a consolidated basis declined to P69.2 million from P117.1 million year on year attributed due to higher rental costs and certain one-off costs incurred in order to give effect to the diversification program and the organization, funding and capitalization of the Company's subsidiary, SBS Holdings and Enterprises Corporation ("SHEC"). These one-off costs which totalled to P21.1 million during the period include the SEC filing fees in connection with the increase in authorized capital stock of SHEC, and taxes and fees on term loan obtained by Company during the 2nd quarter. Net profit for the period amounted to P53.5 million versus the P910.7 million registered for 2016 comparable period due to exceptional one-off gain reported in 1st half 2016 of P826.3 million.

Material Changes to the Statement of Comprehensive Income for the six months ended 30 June 2017 compared to the Statement of Comprehensive Income for the six months ended 30 June 2016.

Sales for the period declined by 0.9% from P517.1 million in 2016 to P512.7 million in 2017. Food ingredients and feed additives continued to lead the growth segments while sales of industrial chemicals slowed down compared to comparable period of 2016 due to low demand in the mining sector and some resistance to pricing actions taken in 2017 to reflect higher commodity product costs.

Meanwhile, cost of goods sold was lower by P17.1 million in the first half of 2017 or 4.3% from P400.9 million in 2016 comparable period to P383.7 million in 2017, reflecting gains on inventory stocking position taken earlier.

Gross profit from core operations increased by P12.7 million from P116.2 million posted in 2016 to P129.0 million in 2017. The increase is largely attributed to improved sales mix and active margin management.

Other operating expenses increased by 42.1% to P75.9 million in 2017 from P53.4 million posted in 2016 as a result of rental rate increases that took effect at the start of 2017 and the one-off costs incurred in order to give effect to the diversification program and the organization, funding and capitalization of SHEC.

Other operating income substantially declined by P38.2 million in 2017 in view of the discontinuation of previous income-generating lease arrangements on account of changes in business requirement of the contracting parties.

Equity in net losses of an associate also increased by P3.8 million year on year as a result of the additional losses incurred by four associate companies which equity interests were acquired in 2016 and three new associate companies of the Company's subsidiary acquired in 2nd quarter of 2017. The gain in 2016 pertained to another associate company which equity interests were acquired in 2012 and divested in 2016.

In 1st half 2016, an exceptional one-off gain was reported in the amount of P826.3 million related to sale of investment properties. No similar transaction reported in 1st half of 2017.

On account of such developments, net income before tax declined year on year from P939.2 million in 2016 to P60.5 million in 2017.

Due to the lower taxable income posted for the period, income tax expense fell by 41.8% or P11.9 million. Net profit consequently declined from P910.7 million in 2016 to P53.5 million in 2017 mainly attributed to the exceptional one-off gain reported in 2016 and decline in rental income during the period.

Material Changes to the Statement of Financial Position as at 30 June 2017 Compared to the Statement of Financial Position as at 31 December 2016

Assets

As at 30 June 2017, total assets on consolidated basis reached P6,245.2 million, consisting of P4,682.4 million in current assets and P1,562.9 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 P1,049.7 million in non-current assets.

Cash in banks increased by 97.2% from P1,383.1 million in 2016 to P2,727.0 million in 2017. For the first six period ended 30 June 2017, a total collection of P2,293.4 million were received as follows: P6.8 million in cash dividends received from HTM investments, P4.3 million gain in exchange rates, P2,250.0 million proceeds from loan availments net of payments, and P32.3 million from reissuance of treasury shares (net of buy back shares). Against this, a total of P949.5 million in settlements were made consisting of the following: P5.6 million in office equipment acquisition which includes additional improvement costs, P510.9 million on additional investments in affiliate companies, P424.3 million used in operating activities and P8.7 million in interest payments (net of interest income on short-term placements).

Trade and other receivables increased by 294.9% from P99.0 million in 2016 to P390.9 million in 2017 as result of higher credit sales.

Inventory level went down by P133.7 million or 10.2% from P1,313.1 million in 2016 to P1,179.4 million in 2016 as a result of higher volume sales of feed ingredient products and Company decision to cut back on new purchases of certain commodity products due to price volatility on account of production outages experienced by certain supplier in India and China due to pollution and/or environmental control issues that caused some disruptions in supply availability and exerted pricing pressures.

Prepayments and other current assets increased by 164.2% or P239.3 million from P145.7 million in 2016 to P385.1 million in 2017 mainly contributed by deposit for future subscription made by SHEC in certain affiliate companies.

Carrying cost of property and equipment increased by P2.7 million or 13.2% to P23.1 million in 2017 from P20.4 million in 2016 as a result of the acquisition of P5.6 million of transportation and office equipment net of P2.9 million additional depreciation expense during the period.

Liabilities

The total liabilities as at 30 June 2017 amounted to P2,951.6 million, comprising of P953.0 million in current liabilities and P1,998.6 million in non-current liabilities. For 31 December 2016, the total liabilities was at P782.8 million, comprising of P744.6 million in current liabilities and P8.2 million in non-current liabilities.

Current loans payable was up by 53.5% or P250.0 million from P467.5 million in 2016 to P717.5 million in 2016 due availment of additional short-term bank loan of P350.0 million less payment of P100.0 million during the period for working capital.

A 5-year term loan of P2,000.0 million was availed during the period at a fixed interest rate of 4.875% per annum and discounted to its effective interest as of June 30, 2017.

Income tax payable posted at P10.0 million in 2017 refers to second quarter corporate income tax due and payable in August 2017. The first quarter income tax due of P0.4 million was due and paid in May 2017.

Total equity

The total equity as at 30 June 2017 was P3,293.7 million, comprising of P1,200.0 million in capital stock, P900.7 million in additional paid in capital stock, P908.5 million in retained earnings gross of the P4.1 million revaluation reserves and P288.5 million of stock dividends distributable. 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 gross of the P30.0 million in treasury shares.

Capital stock remains at P1,200.0 million as of June 30, 2017 from December 31, 2016.

Additional paid-in capital increased by 0.3% or P2.3 million from P898.4 million in 2016 to P900.7 million in 2017 on account of the premium on the reissuance of the treasury shares.

Retained earnings declined by 20.5% or P235.0 million from P1,143.5 million in 2016 to P908.5 million in 2017 on account of current period earnings of P53.5 million net of the provision for stock dividends of P288.5 million.

The entire holdings of 30,959,600 treasury shares were sold by way of a block sale in June 2017 to the Company's substantial shareholder.

Liquidity and Capital Resources

Net cash flows from operating activities

The 2017 cash flows from operating activities resulted to a net outflow of P424.3 million. The cash disbursements involved interest payments, payments of trade purchases and other receivables, and an increase in prepayments.

Net cash flows from investing activities

The cash flow in investing activities resulted to a net outflow of P508.0 million mainly due to investment in associate companies partially compensated by cash dividend received from HTM investments and interest received in short term placements.

Net cash flows used in financing activities

The cash flow from financing activities resulted in a net inflow of P2,271.8 million. The cash inflows mainly comprised of proceeds from bank loans availed and the disposal of treasury shares.

Key Performance Indicators (1H 2017 versus 1H 2016)

	<u>2017</u>	<u>2016</u>
Liquidity Ratio ¹	491.4%	1003.4%
Debt to Equity Ratio ²	90.2%	11.9%
Asset to Equity Ratio ³	190.2%	111.9%
Return on Assets ⁴	0.9%	27.2%
Return on Equity ⁵	1.6%	43.4%
Cost to Income Ratio ⁶	16.7%	10.3%
Interest Cost Coverage Ratio ⁷	707.9%	7151.27%
Earnings per Share ⁸	PHP 0.04	PHP 0.76

^{1/} *Current Assets over Current Liabilities*

^{2/} *Total Liabilities over Equity*

^{3/} *Total Assets over Equity*

^{4/} *Net Income over Average Assets*

^{5/} *Net Income over Average Equity*

^{6/} *Cost and Expenses over Revenues*

^{7/} *EBIT over Interest Expense*

^{8/} *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.

Subject to regulatory approvals, the Company will be undertaking a capital raising exercise in 2017 in the form of a the stock rights offering to be issued solely from the Company's existing unissued capital stock, comprising of up to 302,000,000 common shares for subscription of existing holders of common shares of the Company. The Rights Offer is intended raise to up to One Billion Five Hundred Million Pesos (Php1,500,000,000.00) in gross proceeds which will be used by the Company to support the capitalization requirements of its subsidiary, SBS Holdings and Enterprises Corporation to pursue investment opportunities in property related assets and businesses, and provide for general working capital requirements of the Company .

The Company's shareholders also approved the investment of funds by way of subscription in the increase of authorized capital stock of Company's wholly-owned subsidiary, SBS Holdings and Enterprises Corporation, equivalent to One Billion Five Hundred Seventy Four Million Six Hundred Eighty Seven Thousand and Five Hundred (1,574,687,500) common shares, with a par value of P1.00 per share or for an aggregate par value of One Billion Five Hundred Seventy Four Million Six Hundred Eighty Seven Thousand and Five Hundred Pesos (P1,574,687,500), with up to Eight Hundred Million Pesos (P800,000,000.00), representing 50.79% of such share subscription, to be paid by the Company upon subscription.

In July 2017, the Company's subsidiary subscribed to a 17.5% equity interest in Scott Holdings Corporation ("SHC") for P46,375,000.00. SHC is owner of a 1.8-hectare prime commercial land in Bacolod City.

On August 10, 2017, the Company's subsidiary subscribed to the following shareholdings interests in affiliate property holdings companies: The share subscriptions were based on their par value.

- (i) 17% equity interests in Aresa Holdings Corporation for P48,875,000.00;
- (ii) 17% equity interests in Morechester Phils. Inc. for P6,459,800.00;
- (iii) 22% equity interests in Apschester Holdings Corp. for P12,100,000.00;
- (iv) 17% equity interests in Asida Holding Corp. for P3,750,000.00; and
- (v) 17% equity interests in Mansfield Holdings Corp. for P119,000,000.00.

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:

None

(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 as of June 30, 2017.

In view of the increased operational focus on improving margins and consolidating operations of the chemical distribution business, the Board of Directors deems it to best interest of the Company and its shareholders to change back to allocating part of the unutilized proceeds from the Initial Public Offering for the immediate acquisition of physical assets in the form of land and building improvement for use as its warehouse facility. This capital expenditure would not only help control residual risks in not owning major logistic facilities but it is also a good investment opportunity to broaden the Company's asset base.

Specifically, on August 14, 2017, the Board of Directors has approved to reallocate a total of P450 million of the unutilized IPO Proceeds for the acquisition either of a warehouse facility complex or separately for the purchase of real estate property or a company holding such realty property and capital expenditure for the purchase or construction of a warehouse building which were previously intended for the strategic acquisition of businesses (P350 million) and facility improvements (P100 million) from the remaining unutilized balance of the IPO proceeds amounting to P634,674,672.26.

Meanwhile, the amount of P87,569,456.61 will continue to be used for in new equipment and machinery acquisitions to include but shall not be limited to those itemized in the Company's Prospectus to undertaken during the period 2017-2018 to be aligned with the business requirements of the Company.

Also, the amount of P94,618,561.65 will continue to be earmarked and allocated for the purchase and importation of new additions to the Company's product portfolio as well as fund the organization of a business development unit to strengthen sales and marketing force for the additional new product offerings.

The establishment of a south depot-distribution warehouse will allow greater opportunities for Company customers cut down on their logistics and sourcing organization, integrate the Company's procurement and logistic capabilities in their business processes, and promote collaborations for supply chain optimization to simplify their operations. Further, this capital expenditure would not only help control residual risks in not owning major logistic facilities but it is also a good investment opportunity to broaden the Company's asset base.

(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

The Company expects some price volatility for its commodity chemical products to continue in the 2nd half of 2017 as several chemical raw material manufacturers in Asia experienced production outages due to pollution and/or environmental control issues in China and India that caused some disruptions in supply availability and exerted pricing pressures.. The Company had taken pricing action to account for these supplier adjustments, which affected the price competitiveness of products offered by the Company and resulted in some sales weakness that is expected to continue in the second half of 2017.

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

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

One-off costs were incurred in order to give effect to the diversification program and the organization, funding and capitalization of the Company's subsidiary, SBS Holdings and Enterprises Corporation ("SHEC"). These costs which totaled to P21.1 million during the period include the SEC filing fees in connection with the increase in authorized capital stock of SHEC, and taxes and fees on term loan obtained by Company during the 2nd quarter.

(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.