



11162017003747



# SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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### Company Information

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SEC Registration No. CS201524712  
Company Name WILCON DEPOT, INC. DOING BUSINESS UNDER THE NAME AND STYLE OF WILCON DEPOT AND WILCON HOMES ESSENT  
Industry Classification Const. Materials & Supplies Retaili  
Company Type Stock Corporation

### Document Information

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**WILCON**

90 E. Rodriguez Jr. Ave., Ugong Norte Libis, Quezon City

Tels: 634-8387 (connecting all departments)

Fax: 636-2950, 636-1837

Website: [www.wilcon.com.ph](http://www.wilcon.com.ph)

16 November 2017

**SECURITIES and EXCHANGE COMMISSION**  
Pasay City, Philippines

Attention: **DIRECTOR VICENTE GRACIANO P. FELIZMENIO**  
Market and Securities Regulation Department

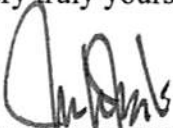
**Mr. Mike Ferdinand Santos**  
SEC Examiner

Gentlemen:

For submission is the attached SEC Form 17-Q, results of the operations of the company for the quarterly period ending September 30, 2017.

Thank you.

Very truly yours,



**MARK ANDREW Y. BELO**  
Chief Financial Officer

# COVER SHEET

C S 2 0 1 5 2 4 7 1 2

S.E.C Registration No.

W I L C O N D E P O T I N C . D O I N G  
 B U S I N E S S U N D E R T H E A N D  
 S T Y L E O F W I L C O N D E P O T A N D  
 W I L C O N H O M E E S S E N T I A L S

(Company's Full name)

**NO. 90 E. RODRIGUEZ JR. AVE., UGONG NORTE, QUEZON CITY**

**Atty. Arthur R. Ponsaran**

Contact Person

**687-7536**

Tel. No.

**17 - Q**

FORM TYPE

Secondary License, (if applicable type)

Dept. requiring this doc

**N/A**

Amended Articles number

Total stockholders

Domestic

Foreign

To be accomplished by SEC personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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 September 30, 2017
2. Commission identification number CS201524712
3. BIR Tax Identification No 009-192-878

4. Exact name of issuer as specified in its charter

**WILCON DEPOT, INC.**

5. Province, country or other jurisdiction of incorporation or organization

**QUEZON CITY, PHILIPPINES**

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office Postal Code

**90 E. RODRIGUEZ JR. AVENUE, UGONG NORTE, QUEZON CITY, 1110**

8. Issuer's telephone number, including area code: (02) 634 8387

9. Former name, former address and former fiscal year, if changed since last report: N/A

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

Title of each Class outstanding	Number of shares of common stock outstanding and amount of debt
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<b>COMMON SHARES</b>	<b>4,099,724,116</b>
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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:

**PHILIPPINES 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 interim condensed financial statements of Wilcon Depot, Inc. Doing business under the Name and Style of WILCON DEPOT and WILCON HOME ESSENTIALS as at September 30, 2017 and December 31, 2016 and for the nine-month periods ended September 30, 2017 and 2016, are filed as part of this form 17-Q.

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

Wilcon Depot, Inc. (WDI or the Company) was established on December 17, 2015 and started commercial operations on April 1, 2016. As such, the financial report for the comparative period ended September 30, 2016 covers only the results of operations of the Company from April 1 to September 30, 2016.

**For the nine-month periods ended September 30, 2017 and 2016**

#### **Net Sales**

The Company generated net sales of ₱13.027 billion for the nine-month period ended September 30, 2017. Sales from depots still made up the bulk of total sales, accounting for 96.9% or ₱12.617 billion, while sales generated by the home essentials format stores composed 3.1% or ₱410 million of total sales. During the period, the Company opened three new stores: Butuan in January, Bacolod in June, and CDO in September. Sales from these new stores represent 1.6% of total sales for the period and are expected to contribute more to the Company's revenues in the future given the demographics of their locations. For the nine-month period ended September 30, 2016, net sales is reported at ₱8.062 billion. The company started commercial operations on April 1, 2016.

#### **Cost of Sales**

Cost of sales closed at ₱9.101 billion, resulting in a gross margin percentage of 30.1% for the nine-month period ended September 30, 2017. For the nine-month period ended September 30, 2016, cost of sales is reported at ₱6.175 billion with gross margin of 23.4%. The company started commercial operations on April 1, 2016.

### **Operating Expenses**

The company's operating expenses for the nine-month period ended September 30, 2017 amounted to ₱2.611 billion, the bulk of which is comprised of rent expense, salaries and wages, and outsourced services cost, accounting for 58.6% of total operating expenses. For the nine-month period ended September 30, 2016, operating expenses totaled ₱1.538 billion, with rent expense, salaries and wages, and outsourced services cost accounting for 60.8% of total operating expenses.

### **Interest Expense**

Interest expense for the nine-month month periods ended September 30, 2017 and 2016 amounted to ₱19.5 million and ₱20.8 million respectively. The decrease in interest expense is due to repayments of short- and long-term debt from the proceeds of the initial public offering.

### **Other Income (Charges)**

For the nine-month period ended September 30, 2017, the Company generated a net other income of ₱163.3 million consisting of interest income from money market placements and AFS financial asset, rent income from gondola lightings, facade billboards, display windows; and other income representing amounts charged to and from suppliers for the use of billboards, signage, and other reimbursable costs. Other income (charges) during the nine-month period ended September 30, 2016 is reported at ₱31.4 million. Miscellaneous sales increased by ₱82.3 million which accounts for 62.4% of the total increase in other income (charges) of ₱131.9 million. Also contributing to the increase is higher interest income earned from additional investments made during the period.

### **Operating Income / Earnings Before Interest and Tax (EBIT) / Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)**

EBITDA for the nine-month period ended September 30, 2017 is ₱1.553 billion, or 11.9% of net sales. EBITDA for the nine-month period ended September 30, 2016 is reported at ₱423 million, or 5.2% of net sales.

EBIT for the nine-month period ended September 30, 2017 is ₱1.478 billion, or 11.3% of net sales. EBIT for the nine-month period September 30, 2016 is reported at ₱382 million, or 4.7% of net sales.

### **Income Tax Expense (Benefit)**

Income tax expense for the nine-month period ended September 30, 2017 netted out at ₱341.3 million. This consisted of current income tax totaling ₱356.2 million representing regular corporate income tax and a ₱14.9 million deferred tax benefit. For the nine-month period ended September 30, 2016, the income tax benefit netted out at ₱65.9 million, which consisted of ₱127.2 million in current income tax expense offset by a deferred tax benefit of ₱193.0 million.

### **Net Income**

Net income for the nine-month period ended September 30, 2017 reached ₱1.118 billion for a net profit margin of 8.6%.

## Financial Condition

### Assets

**Current Assets.** Cash and cash equivalents increased from ₱638.0 million to ₱3.470 billion due to proceeds from issuance from capital stock of ₱6.8 billion, offset by investment in retail treasury bonds and short-term investment totaling ₱3.542 billion, and ₱744.4 million in debt repayments. Excess cash invested in money market placements totaling ₱1.851 billion with 30-123 days maturities.

Trade and other receivables totaled ₱598.4 million, comprising 4.9% of current assets and representing mostly trade receivables from customers.

Merchandise inventories totaling ₱6.948 billion make up the bulk of current assets, accounting for 56.7% of total current assets.

**Noncurrent assets.** The Company's noncurrent assets totaled ₱4.138 billion as at September 30, 2017, comprising 25.3% of total assets. Investment in available-for-sale financial asset accounts for 73.5% of total noncurrent assets, followed by property and equipment at 14.9%. Property and equipment consists of store and office equipment, construction in progress on new stores being built, leasehold improvements, and furniture and fixtures.

### Liabilities

Current liabilities amounted to ₱4.095 billion comprised of short-term borrowings of ₱200.0 million, current portion of long-term debt of ₱140.0 million, trade and other payables of ₱3.601 billion, and income tax payable of ₱153.5 million. Current liabilities account for 84.9% of total liabilities. Current liabilities as at December 31, 2016 totaled ₱4.497 billion. Current liabilities decreased primarily due to the repayment of short and long-term borrowings. Trade accounts payable, on the other hand, is in line with that of the previous year.

### Equity

Total equity amounted to ₱11.510 billion, comprised of capital stock of ₱4.100 billion, additional paid-in capital of ₱5.374 billion, retained earnings of ₱2.004 billion, and other comprehensive income (loss) of ₱32.1 million. The parent company, WC, on April 1, 2016 subscribed 2,656 million shares of the Company's common shares in exchange for the trading business of the parent, including the related assets and liabilities, netting at ₱2.656 million. The subscription of shares and transfer of assets by the parent company was approved by the SEC on November 15, 2016.

## PART II—OTHER INFORMATION

There is no other information not previously reported in SEC Form 17-C that needs to be reported in this section

## 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.

November 16, 2017

WILCON DEPOT, INC.

By:



LORRAINE BELO-CINCOCHAN  
President-CEO



MARK ANDREW Y. BELO  
Treasurer- CFO



**WILCON DEPOT, INC.**

**Doing Business under the Name and Style of  
WILCON DEPOT and WILCON HOME ESSENTIALS**

*(A Subsidiary of WILCON CORPORATION*

*Doing Business under the Name and Style of  
WILCON CITY CENTER)*

**Unaudited Interim Condensed Financial Statements**

**As at September 30, 2017 and December 31, 2016 and**

**For the Nine-Month Periods Ended September 30, 2017 and 2016**

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**  
**Doing Business under the Name and Style of WILCON CITY CENTER)**

**UNAUDITED INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION**

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	P3,469,663,414	P638,072,093
Short-term investment	5	500,000,000	-
Trade and other receivables	6	598,345,263	422,593,586
Merchandise inventories	7	6,948,365,244	6,575,843,901
Other current assets		676,198,148	769,937,004
<b>Total Current Assets</b>		<b>12,192,572,069</b>	<b>8,406,446,584</b>
<b>Noncurrent Assets</b>			
Available-for-sale financial asset	8	3,041,735,464	-
Property and equipment	9	617,733,785	341,897,899
Deferred tax assets	19	199,142,743	184,261,772
Other noncurrent assets	10	279,660,990	210,984,752
<b>Total Noncurrent Assets</b>		<b>4,138,272,982</b>	<b>737,144,423</b>
		<b>P16,330,845,051</b>	<b>P9,143,591,007</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Short-term debt	11	P200,000,000	P445,000,000
Current portion of long-term debt	12	139,999,999	278,461,539
Trade and other payables	13	3,601,320,232	3,619,679,500
Income tax payable		153,553,233	154,094,765
<b>Total Current Liabilities</b>		<b>4,094,873,464</b>	<b>4,497,235,804</b>
<b>Noncurrent Liabilities</b>			
Long-term debt - net of current portion	12	288,461,540	649,358,974
Retirement liability	14	437,751,450	414,571,587
<b>Total Noncurrent Liabilities</b>		<b>726,212,990</b>	<b>1,063,930,561</b>
<b>Total Liabilities</b>		<b>P4,821,086,454</b>	<b>P5,561,166,365</b>
<b>Equity</b>			
Capital stock	15	4,099,724,116	2,705,817,916
Additional paid-in capital		5,373,738,427	-
Other comprehensive income (loss)		32,095,139	(9,640,325)
Retained earnings		2,004,200,915	886,247,051
<b>Total Equity</b>		<b>11,509,758,597</b>	<b>3,582,424,642</b>
		<b>P16,330,845,051</b>	<b>P9,143,591,007</b>

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**

**Doing Business under the Name and Style of WILCON CITY CENTER)**

**UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016\***

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
NET SALES		<b>₱13,027,002,108</b>	<b>₱8,062,416,655</b>	<b>₱4,549,141,026</b>	<b>₱4,054,128,256</b>
COST OF SALES	16	<b>9,100,847,130</b>	<b>6,174,590,443</b>	<b>3,179,911,996</b>	<b>3,140,577,470</b>
GROSS INCOME		<b>3,926,154,978</b>	<b>1,887,826,212</b>	<b>1,369,229,030</b>	<b>913,550,786</b>
OPERATING EXPENSES	17	<b>(2,610,704,281)</b>	<b>(1,537,593,990)</b>	<b>(937,728,472)</b>	<b>(780,209,655)</b>
INTEREST EXPENSE	12	<b>(19,503,758)</b>	<b>(20,829,517)</b>	<b>(3,942,788)</b>	<b>(9,992,239)</b>
OTHER INCOME - Net	18	<b>163,295,965</b>	<b>31,369,228</b>	<b>69,620,103</b>	<b>20,482,295</b>
INCOME BEFORE INCOME TAX		<b>1,459,242,904</b>	<b>360,771,933</b>	<b>497,177,873</b>	<b>143,831,187</b>
INCOME TAX EXPENSE (BENEFIT)	19				
Current		<b>356,170,011</b>	<b>127,173,552</b>	<b>156,706,546</b>	<b>29,677,343</b>
Deferred		<b>(14,880,971)</b>	<b>(193,049,805)</b>	<b>(14,812,107)</b>	<b>(21,700,262)</b>
		<b>341,289,040</b>	<b>(65,876,253)</b>	<b>141,894,439</b>	<b>7,977,081</b>
NET INCOME		<b>1,117,953,864</b>	<b>426,648,186</b>	<b>355,283,434</b>	<b>135,854,106</b>
OTHER COMPREHENSIVE INCOME(LOSS)		<b>41,735,464</b>	<b>(9,640,325)</b>	<b>12,541,617</b>	<b>(9,640,325)</b>
TOTAL COMPREHENSIVE INCOME		<b>₱1,159,689,328</b>	<b>₱417,007,861</b>	<b>₱367,825,051</b>	<b>₱126,213,781</b>
BASIC AND DILUTIVE EARNINGS PER SHARE	22	<b>₱0.31</b>	<b>₱0.23</b>	<b>₱0.10</b>	<b>₱0.07</b>

*See accompanying Notes to Unaudited Interim Condensed Financial Statements.*

\* The Company was registered with the Securities and Exchange Commission on December 31, 2015 and started its commercial operations on April 1, 2016.

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
(A Subsidiary of WILCON CORPORATION)  
**Doing Business under the Name and Style of WILCON CITY CENTER)**

**UNAUDITED INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016\***

	Note	September 30, 2017 (Unaudited)	September 30, 2016 (Audited)
<b>CAPITAL STOCK</b>			
Balance at beginning of period	15	P2,705,817,916	P50,000,000
Issuances		1,393,906,200	-
Balance at end of period		4,099,724,116	50,000,000
<b>DEPOSIT FOR STOCK SUBSCRIPTION</b>		-	2,655,817,916
<b>ADDITIONAL PAID-IN CAPITAL</b>		5,373,738,427	-
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Reserve for Fair Value Changes on Available-for-sale Financial Asset			
Unrealized gain	8	41,735,464	-
Remeasurement loss on retirement liability, net of deferred income tax			
Balance at beginning and end of period		(9,640,325)	(9,640,325)
		32,095,139	(9,640,325)
<b>RETAINED EARNINGS</b>			
Balance at beginning of period		886,247,051	(530,257)
Net income		1,117,953,864	426,648,186
Balance at end of period		2,004,200,915	426,117,929
		<b>P11,509,758,597</b>	<b>P3,122,295,520</b>

*See accompanying Notes to Unaudited Interim Condensed Financial Statements.*

\* The Company was registered with the Securities and Exchange Commission on December 31, 2015 and started its commercial operations on April 1, 2016.

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**

**Doing Business under the Name and Style of WILCON CITY CENTER)**

**UNAUDITED INTERIM CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2017 AND 2016\***

	Note	2017 (Unaudited)	2016 (Audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		₱1,459,242,904	₱360,771,933
Adjustments for:			
Depreciation and amortization	9	74,082,621	41,054,124
Interest income	4	(73,788,328)	(427,798)
Retirement benefits	14	38,131,998	19,830,242
Net provision for (reversal of) allowance for:			
Inventory write down and losses	7	29,175,121	-
Impairment losses on receivables	6	(3,107,775)	27,880,783
Interest expense	12	19,503,758	20,829,517
Operating income before working capital changes		1,543,240,299	469,938,801
Decrease (increase) in:			
Merchandise inventories		(401,696,464)	423,475,986
Trade and other receivables		(146,687,485)	(104,045,073)
Other current assets		93,738,856	(783,804,507)
Increase (decrease) in trade and other payables		(18,359,268)	1,009,139,663
Net cash generated from operations		1,070,235,938	1,014,704,870
Income tax paid		(356,711,543)	(108,970,962)
Interest received		47,831,911	427,798
Retirement plan contribution	14	(14,952,135)	-
Net cash provided by operating activities		746,404,171	906,161,706
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Available-for-sale financial asset		(3,000,000,000)	-
Short-term investment		(500,000,000)	-
Property and equipment	9	(347,821,211)	(25,111,144)
Computer software	10	(23,767,184)	(10,521,758)
Increase in:			
Other noncurrent assets		(47,006,350)	(35,964,500)
Due from Parent Company		-	(599,471,322)
Cash used in investing activities		(3,918,594,745)	(671,068,724)

(Forward)

	Note	2017 (Unaudited)	2016 (Audited)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of capital stock	15	₱6,767,644,627	₱-
Payments of:			
Long-term debt		(697,820,513)	(129,230,769)
Short-term debt		(245,000,000)	(99,925,241)
Interest		(19,503,758)	(20,829,517)
Availments of long-term borrowings		198,461,539	-
Cash transferred from Parent Company		-	199,731,283
<b>Net cash provided by (used in) financing activities</b>		<b>6,003,781,895</b>	<b>(50,254,244)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2,831,591,321</b>	<b>184,838,738</b>
<b>CASH AT BEGINNING OF PERIOD</b>		<b>638,072,093</b>	<b>50,000,000</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	4	<b>₱3,469,663,414</b>	<b>₱234,838,738</b>
<b>NONCASH INVESTING ACTIVITY</b>			
Net assets transferred from Parent Company in exchange for shares of stock of the Company, net of cash transferred of ₱199,731,283		₱-	₱2,456,086,633

*See accompanying Notes to Unaudited Interim Condensed Financial Statements.*

\* The Company was registered with the Securities and Exchange Commission on December 31, 2015 and started its commercial operations on April 1, 2016.

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**  
**Doing Business under the Name and Style of WILCON CITY CENTER)**

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**NOTES TO UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**

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**1. Corporate Information**

WILCON DEPOT, INC. Doing Business under the Name and Style of WILCON DEPOT and WILCON HOME ESSENTIALS (the Company and formerly Wilcon Depot, Inc.), was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on December 17, 2015. The change in corporate name of the Company was approved by the SEC on April 29, 2016. The Company is engaged in buying and selling of all kinds of goods, commodities, wares and merchandise at wholesale and retail.

The Company started its commercial operations on April 1, 2016.

The Company is a subsidiary of WILCON CORPORATION Doing Business under the Name and Style of WILCON CITY CENTER (the Parent Company and formerly WILCON BUILDER'S DEPOT, INC., Doing Business under the Name and Style of WILCON DEPOT; WILCON HOME ESSENTIALS; and WILCON CITY CENTER), a holding company incorporated in the Philippines. The Parent Company is previously engaged in the same line of business as the Company. The ultimate parent company is LIAM ROS HOLDINGS INC., an entity incorporated in the Philippines and is a holding company.

On March 31, 2016, the Board of Directors (BOD) and stockholders of the Parent Company approved the transfer of its Trading Business, including the related assets and liabilities, to the Company in exchange for shares of stock of the Company. On the same date, the BOD and stockholders of the Company approved the acquisition and receipt of the former's Trading Business effective April 1, 2016. The transfer of net assets in exchange for shares of stock of the Company and the increase in authorized capital stock were approved by the SEC on November 15, 2016 (see Note 15).

The transfer of net assets, assessed to be tax free exchange, was approved by the Bureau of Internal Revenue (BIR) on January 26, 2017.

On September 13, 2016, the BOD and stockholders of the Company authorized the Company to undertake an initial public offering of its shares with the Philippine Stock Exchange, Inc. (PSE). Subsequently, on February 23 and March 8, 2017, the SEC and the PSE, respectively, approved the Company's application for initial public offering (IPO).

The shares of stock of the Company are officially listed in the PSE on March 31, 2017. The Company listed 1,393,906,200 common shares at an offer price of ₱5.05 per share. Proceeds from IPO amounted to ₱6,750.1 million (see Note 15).

The registered office address of the Company is at No. 90 E. Rodriguez Jr. Avenue, Brgy. Ugong Norte, Quezon City.

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## 2. Summary of Significant Accounting Policies

### **Basis of Preparation and Statement of Compliance**

The unaudited interim condensed financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including the SEC provisions.

The significant accounting policies that have been used in the preparation of the unaudited interim condensed financial statements have been consistently applied to all the periods presented, unless otherwise stated.

The unaudited interim condensed financial statements have been prepared in accordance with PAS 34, *Interim Financial Reporting*. The unaudited interim condensed financial statements do not include all the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Company's annual audited financial statements as at and for the year ended December 31, 2016, which have been prepared in accordance with PFRS.

### **Measurement Bases**

The unaudited interim condensed financial statements have been presented in Philippine Peso, which is the functional currency of the Company. All amounts are in absolute values, unless otherwise stated.

The unaudited interim condensed financial statements of the Company have been prepared on the historical cost basis of accounting, except for available-for-sale (AFS) financial asset that is measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for an asset and change in fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the unaudited interim financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active market for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by



re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Further information about the assumptions made in measuring fair value is included in the following notes:

- Note 3, Significant Accounting Judgments, Estimates and Assumptions
- Note 8, Available-for-sale financial asset
- Note 24, Fair Value of Financial Instruments

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

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Company adopted effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

The adoption of the foregoing new and amended PFRS did not have any material effect on the financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

#### **New and Amended PFRS in Issue But Not Yet Effective**

Relevant new and amended PFRS, which are not yet effective for the period ended September 30, 2017 and have not been applied in preparing the unaudited interim condensed financial statements, are summarized below.

#### **Effective for annual period beginning on or after January 1, 2018**

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which these are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken - the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is

recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract. It will no longer be necessary to have an objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

- PFRS 15 replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company’s performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.
- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

Effective for annual period beginning on or after January 1, 2019

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees’ statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.
- Philippine Interpretation IFRIC 23, *Uncertainty Over Income Tax Treatments* – The interpretation provides requirements in addition to those set in PAS 12, *Income Taxes*, by specifying how to determine the accounting tax position when there is uncertainty over tax treatments. It requires an entity to (a) determine whether uncertain tax positions are assessed separately or as a group, and (b) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax

losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. Otherwise, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Company except for PFRS 9 and PFRS 16. The adoption of PFRS 9 and PFRS 16 might have a significant effect on amounts reported in the Company's financial assets and liabilities, revenue and leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed. Additional disclosures will be included in the financial statements, as applicable.

### **Financial Assets and Liabilities**

*Date of Recognition.* Financial assets and liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of a financial instrument. All regular way purchases and sales of financial assets are recognized on the trade date (i.e., the date that the Company commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

*Initial Recognition.* Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Transaction costs are included in the initial measurement of all financial instruments, except for financial instruments classified as fair value through profit or loss (FVPL). Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities.

*"Day 1" Difference.* Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Company recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Company determines the appropriate method of recognizing a "Day 1" difference amount.

*Classification.* Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are recognized in profit or loss. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax.

The Company classifies its financial assets into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities.

The classification of financial instruments depends on the purpose for which these were acquired and whether these are quoted in an active market. The Company determines the classification of

the financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Company does not have financial instrument classified as financial asset or financial liabilities at fair market value and held-to-maturity investment.

**Loans and Receivables.** Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment in value. Any interest earned on loans and receivables is recognized as part of "Interest income" in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization, included as part of "Interest income," is recognized in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

Cash and cash equivalents, short-term investment, trade and other receivables (except advances to suppliers), container deposits (presented as part of "Other current assets") and security, rental and electricity deposits and refundable cash bonds (presented as part of "Other noncurrent assets") are included in this category.

**AFS Financial Assets.** AFS financial assets are those nonderivative financial assets that are designated as such or do not qualify to be classified as financial assets designated as at FVPL, loans and receivables and HTM investments. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are initially measured at fair value plus incremental direct transactions costs. After initial measurement, AFS financial assets are measured at fair value, with unrealized gains and losses recognized as other comprehensive income or loss and in the equity section of the statement of financial position. When the investment is derecognized or is determined to be impaired, the cumulative gain or loss previously recognized in equity is included in profit or loss.

The Company classifies its investments in retail treasury bond as AFS financial asset.

**Other Financial Liabilities.** Other financial liabilities pertain to financial liabilities that are not held for trading and are not designated at FVPL upon the inception of the liability. These include liabilities arising from operating and financing activities.

Payables are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established. These are measured at amortized cost, normally equal to nominal amount.

The short-term and long-term debts and trade and other payables (excluding statutory liabilities, unredeemed gift certificates, and unearned revenue) are included in this category.

### **Impairment of Financial Assets**

The Company assesses at the end of each reporting period whether a financial asset or a group of financial assets is impaired.

*Financial Assets Carried at Amortized Cost.* If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of loss is measured as the difference between the asset's 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 (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Objective evidence includes observable data that comes to the attention of the Company about loss events such as, but not limited to, significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, or the increasing probability that the borrower will enter bankruptcy or other financial reorganization. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the Company of financial assets with similar credit risk and characteristics and that Company of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment. The impairment assessment is performed at the end of each reporting period. For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics such as customer type, payment history, past-due status and term.

Loans and receivables, together with the related allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized. 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, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

*AFS Financial Asset.* For equity instruments classified as AFS financial assets, impairment would include a significant or prolonged decline in the fair value of the investments below their cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value less any impairment loss on the financial asset previously recognized in profit or loss, is removed from equity and recognized in profit or loss. Impairment losses on equity investments are not reversed through income. Increases in fair value after impairment are recognized directly in the other comprehensive income presented in the statement of changes in equity.

For debt instruments classified as AFS financial assets, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest income continues to be recognized on the reduced carrying amount using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed in profit or loss.

### **Derecognition of Financial Assets and Liabilities**

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Company when:

- The rights to receive cash flows from the asset has expired; or
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control over the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and benefits of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset, if any, is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Company could be required to pay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

### **Offsetting of Financial Instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

### **Merchandise Inventories**

Merchandise inventories are valued at the lower of cost and net realizable value. Cost, which includes all costs directly attributable to acquisition such as purchase price and freight-in, is determined using the weighted average method.

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

When inventories are sold, the carrying amount of those inventories is recognized to profit or loss in the period when the related revenue is recognized.

### **Other Current Assets**

Other current assets mainly consist of input value-added tax (VAT), deferred input VAT, prepaid expenses, supplies and container deposits.

VAT. Revenue, expenses and assets are recognized, net of the amount of VAT, except:

- where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority; or
- Receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from the taxation authority is included as part of "Other current assets" account in the unaudited interim condensed statement of financial position.

Deferred input VAT represents the unamortized amount of input VAT on capital goods and input VAT on consigned goods already sold, wherein the suppliers' invoices are received consequently. Deferred inputs VAT that are expected to be claimed against output VAT for no more than 12 months after the reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Prepaid Expenses.* Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate expense accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting date are classified as current assets. Otherwise, these are classified as noncurrent assets.

*Supplies.* Supplies are valued at the lower of cost and NRV. Cost is determined using the weighted average method. Cost includes purchase price, freight, handling and other cost directly attributable to acquisition of supplies.

*Container Deposits.* Container deposits qualify as financial assets and are disclosed under financial instruments.

### **Property and Equipment**

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

The initial cost of property and equipment comprises of its purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the asset has been put into operations, such as repairs and maintenance, are normally recognized as expense in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have improved the condition of the asset beyond the originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Construction in progress represents structures under construction and is stated at cost. Cost includes costs of construction, labor and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in progress is not depreciated until such time that the relevant assets are ready for use.

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

<u>Asset Type</u>	<u>Number of Years</u>
Leasehold improvements	5 or term of lease, whichever is shorter
Furniture and equipment	5
Transportation equipment	5

The estimated useful lives and depreciation and amortization are reviewed and adjusted, if appropriate, at each reporting date to ensure that such years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer being used and no further depreciation and amortization are credited or charged to profit or loss.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

An item of property and equipment 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 from 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 period the item is derecognized.

#### **Other Noncurrent Assets**

Other noncurrent assets comprise of security, rental and electricity deposits, refundable cash bonds and computer software. These, except advance rental and computer software, qualify as financial assets and are disclosed under financial instruments.

*Security and Rental Deposits.* Security and rental deposits represent deposits made in relation to the lease agreements entered into by the Company. These are carried at cost less any impairment in value, and will generally be returned and applied at the end of the lease term, respectively.

*Electricity Deposits.* Electricity deposits are carried at cost less any impairment in value, and will be refunded upon termination of the contract.

*Computer Software.* Computer software acquired is measured on initial recognition at cost. Subsequent to initial recognition, computer software is carried at cost less accumulated amortization and any impairment losses. Internally generated computer software, excluding capitalized development costs, is not capitalized and expenditure is charged against profit or loss in the period in which the expenditure is incurred.

Computer software is amortized over the economic useful life of eight years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method for computer software are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from disposition of computer software measured as the difference between



the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

#### **Impairment of Nonfinancial Assets**

At each reporting date, nonfinancial assets are reviewed to determine whether there is any indication that those assets may be impaired. If there is an indication of possible impairment, the recoverable amount of any asset (or group of related assets) is estimated and compared with its carrying amount. An asset's (or group of assets') recoverable amount is the higher of an asset's fair value less cost to sell and its value in use, and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and impairment loss is recognized immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset (or group of related assets) in prior period. A reversal of an impairment loss is recognized immediately in profit or loss.

Nonfinancial assets include property and equipment, computer software and advance rental.

#### **Equity**

*Capital Stock and Additional Paid-in Capital.* Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from proceeds, net of tax. The excess of proceeds from the issuance of shares over the par value of shares is credited to additional paid-in capital.

*Retained Earnings.* Retained earnings represent the cumulative balance of net income or loss.

*Other Comprehensive Income (Loss).* Other comprehensive income (loss) comprise items of income and expenses (including items previously presented under the unaudited interim condensed statements of changes in equity) that are not recognized in profit or loss for the period in accordance with PFRS. Other comprehensive income (loss) includes fair value changes on AFS financial asset and cumulative remeasurement loss on retirement liability.

#### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognized.

*Net Sales.* Revenue is recognized when the significant risks and benefits of ownership of the goods have passed to the buyer, which is normally upon delivery, and is measured at the fair value of the consideration received or receivable, net of returns, trade discounts, volume rebates and unearned revenue from loyalty program.

The award credits from the loyalty program are identifiable component of sale transactions in which these are granted. The fair value of the consideration received or receivable in respect to the sale is allocated between the award credits and the other components of the sale. The Company

recognizes the consideration received allocated to award credits as sale when award credits are redeemed and it fulfills its obligations to supply the award credits. The amount of revenue recognized is based on the number of award credits that have been redeemed in exchange for awards, relative to the total number that are expected to be redeemed. Any unredeemed award credits as at reporting date are recognized as unearned revenue included under "Trade and other payables" account in the statement of financial position.

*Rent Income.* Revenue arising from rentals of property is recognized on a straight-line basis over the lease term.

*Interest Income.* Revenue is recognized as the interest accrues, taking into account the effective yield of the asset.

*Other Income.* Revenue is recognized when there is an incidental economic benefit, other than the usual business operations, that will flow to the Company through an increase in asset or reduction in liability and that can be measured reliably.

#### **Cost and Expense Recognition**

Costs and expenses are recognized in profit or loss upon receipt of goods, utilization of services or at the date the costs and expenses are incurred.

#### **Employee Benefits**

*Short-term Employee Benefits.* The Company recognizes a liability net of amounts already paid and an expense for services rendered by employees during the period. A liability is also recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit liabilities are measured on an undiscounted basis and are expensed as the related service is provided.

*Retirement Benefits.* Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements and net interest expense or income in profit or loss. Net interest is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Company recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the period in which these arise. Remeasurements are not reclassified to profit or loss in subsequent period.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using

interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

### **Leases**

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies:

- a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. There is a change in the determination of whether fulfillment is dependent on a specified asset;  
or
- d. There is substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and reward of ownership over the asset are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the period of the lease.

### **Income Taxes**

***Current Tax.*** Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rate and tax laws used to compute the amount are those that have been enacted or substantively enacted at end of the reporting period.

***Deferred Tax.*** Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry forward benefits of unused tax credits from unused net operating loss carry over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to 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 sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate and tax laws that have been enacted or substantively enacted at the end of reporting period.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

#### **Earnings per Share**

The Company presents basic and diluted earnings per share. Basic earnings per share are calculated by dividing the net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated in the same manner, adjusted for the effects of all dilutive potential common shares.

The Company has no dilutive potential common shares.

#### **Related Party Relationship and Transactions**

Related party transactions consist of transfers of resources, services or obligations between the Company and its related parties.

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. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on legal form.

#### **Segment Reporting**

Operating segments are components of the Company: (a) that engage in business activities from which this may earn revenue and incur expenses, including revenue and expenses relating to transactions with other components of the Company; (b) whose operating results are regularly reviewed by the Company's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Company has only one reportable operating segment, which is the trading business. The Company has only one geographical segment as all of its assets are located in the Philippines. The Company operates and derives all its revenue from domestic operations.

#### **Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the amount expected to be required to settle the obligation using a pre-tax rate that reflects market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

#### **Contingencies**

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

#### **Events after the Reporting Date**

Events after the reporting date that provide additional information about the Company's financial position at the end of the reporting period (adjusting events) are reflected in the unaudited interim condensed financial statements when material. Events after the reporting date that are non-adjusting events are disclosed in the notes to unaudited interim condensed financial statements when material.

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### **3. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the unaudited interim condensed financial statements requires the Company to exercise judgment, make estimates and use assumptions that affect the amounts reported in the unaudited interim condensed financial statements and accompanying notes. The judgments and estimates are based on management's evaluation of relevant facts and circumstances as of the date of the comparative financial statements. Actual results could differ from these estimates, and as such estimates will be adjusted accordingly when the effects become determinable.

#### **Judgments**

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the unaudited interim condensed financial statements.

*Determining the Operating Segments.* Determination of operating segments is based on the information about components of the Company that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Company's chief operating decision maker, which is defined to be the Company's BOD, in order to allocate resources to the segment and assess its performance. The Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment

sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

The Company has only one reportable operating segment which is the trading business and one geographical segment as all of the assets are located in the Philippines. The Company operates and derives all its revenue from domestic operations. Thus, no further disclosures of operating and geographical segments are necessary.

*Determining the Classification of Lease Arrangements.* The Company, as a lessee, has various lease agreements with related parties and third parties for land, buildings, computer software and transportation equipment. The Company has determined that the lessor retains all significant risks and benefits of ownership over the leased properties. Accordingly, the Company accounts for the lease agreements as operating leases.

Rent expense amounted to ₱551.1 million and ₱352.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱189.7 million and ₱181.8 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 17).

The Company, as a lessor, has existing lease agreements for commercial spaces, gondola lightings, facade billboards, window displays and street banners. The Company has determined that the significant risks and benefits of ownership over the leased properties remain with the Company. Accordingly, the Company accounts for the lease agreements as operating leases.

Rent income amounted to ₱12.2 million and ₱5.2 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱3.3 million and ₱3.3 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 18).

#### **Estimates and Assumptions**

The key estimates and assumptions used in the unaudited interim condensed financial statements are based upon management's evaluation of relevant facts and circumstances of the unaudited interim condensed financial statements. Actual results could differ from those estimates. Presented below is the relevant estimate performed by management on its unaudited interim condensed financial statements.

*Determining Fair Values of Financial Instruments.* Fair value determinations for financial assets are based generally on quoted market prices. If market prices are not available, fair value is determined using valuation techniques that make maximum use of marketable observable inputs and which the Company determines can best provide a fair value acceptable to market participants.

Fair values of financial assets and liabilities as presented in Note 24 to unaudited interim condensed financial statements.

*Determining Fair Value of AFS Financial Asset.* The Company carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of

these financial assets would affect profit or loss and other comprehensive income.

Unrealized gain on fair value changes on AFS financial asset recognized in other comprehensive income amounted to ₱41.7 million in September 30, 2017 (see Note 8).

The carrying amount of AFS financial asset amounted to ₱3,041.7 million as at September 30, 2017 (see Note 8).

*Estimating Impairment Losses on Trade and Other Receivables (including container, security, rental and electricity deposit, and refundable cash bonds).* Impairment losses on receivables are provided for specific and groups of accounts, where objective evidence of impairment exists. The Company evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers and counterparties, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience, and historical loss experience.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different methodologies. An increase in allowance for impairment losses on receivables would increase the recorded expenses and decrease current assets. In addition, accounts specifically identified to be potentially uncollectible are also provided with adequate allowance.

The carrying value of trade and other receivables amounted to ₱598.3 million and ₱422.6 million as at September 30, 2017 and December 31, 2016, respectively (see Note 6). Allowance for impairment losses on receivables amounted to ₱38.0 million and ₱45.8 million as at September 30, 2017 and December 31, 2016, respectively (see Note 6).

There were no indications that the carrying value of container, security and rental deposits may be impaired. Accordingly, no impairment loss was recognized in 2017 and 2016.

The carrying values of container, security, rental and electricity deposits assessed for possible impairment are presented below.

	Note	2017 (Unaudited)	2016 (Audited)
Container deposits		₱8,099,637	₱9,034,191
Security and rental deposits*		104,153,421	96,570,786
Electricity deposits	10	34,011,947	16,802,346
		<b>₱146,265,005</b>	<b>₱122,407,323</b>

\*Excluding advance rentals amounting to ₱71.1 million and ₱64.8 million as at September 30, 2017 and December 31, 2016, respectively.

As at September 30, 2017 and December 31, 2016, refundable cash bonds amounting to ₱83.4 million have been assessed as unrecoverable. Accordingly, allowance for impairment losses amounted to ₱83.4 million as at September 30, 2017 and December 31, 2016 (see Note 10).

*Determining Net Realizable Value of Merchandise Inventories.* The Company recognizes inventory write down and losses whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after reporting date to the extent that such events confirm conditions existing at reporting date. The allowance account is reviewed periodically to reflect the accurate valuation in the financial records.

The carrying value of merchandise inventories amounted to ₱6,948.4 million and ₱6,575.8 million as at September 30, 2017 and December 31, 2016, respectively (see Note 7). Allowance for inventory write-down and losses amounted to ₱130.8 million and ₱101.7 million as at September 30, 2017 and December 31, 2016, respectively (see Note 7).

*Estimating Useful Lives of Property and Equipment and Computer Software.* The Company estimates the useful lives of property and equipment and computer software based on the periods 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, technical or commercial obsolescence and legal or other limits on the use of the assets.

There is no change in estimated useful lives of property and equipment and computer software as at September 30, 2017 and December 31, 2016. The carrying value of depreciable property and equipment and computer software follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Property and equipment*	9	₱427,298,036	₱341,897,899
Computer software	10	32,225,197	10,555,309
		<b>₱459,523,233</b>	<b>₱352,453,208</b>

\*Excludes construction in progress amounting to ₱190.4 million as at September 30, 2017.

*Assessing Impairment of Nonfinancial Assets.* The Company assesses any impairment on its nonfinancial assets whenever events or changes in circumstances indicate that the carrying value of assets or group of assets may not be recoverable. Factors that the Company considered in deciding when to perform impairment review includes the following among others:

- significant under-performance of a business in relation to expectations;
- significant negative industry or economic trends; and
- significant changes or planned changes in the use of the assets.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's-length transaction. Recoverable amount represents the value in use, determined as the present value of estimated future cash flow expected to be generated from the continued use of the assets. The estimated cash flow is projected using growth rates based on historical experience and business plans and are discounted using pretax discount rates that reflect the current assessment of the time value of money and the risks specific to the asset. Recoverable amounts are estimated for individual assets, or if it is not possible, for the cash generating unit to which the assets belong.

There were no indications that the carrying value of nonfinancial assets may be impaired. Accordingly, no impairment loss was recognized in 2017 and 2016.



The carrying values of nonfinancial assets assessed for possible impairment are presented below.

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Property and equipment	9	₱617,733,785	₱341,897,899
Computer software	10	32,225,197	10,555,309
		<b>₱649,958,982</b>	<b>₱352,453,208</b>

*Determining Retirement Liability.* The determination of the obligation and cost of retirement benefits is dependent on the assumptions determined by management and used by the actuary in calculating such amounts. These assumptions are described in Note 14 to unaudited interim condensed financial statements and include, among others, discount rate and salary increase rate. Actual results that differ from the Company's assumptions are accumulated and recognized in other comprehensive income, therefore, generally affect the recognized expense and recorded obligation in such future periods.

Net retirement liability amounted to ₱437.8 million and ₱414.6 million as at September 30, 2017 and December 31, 2016, respectively (see Note 14).

*Assessing Realizability of Deferred Tax Assets.* The Company reviews the carrying amount of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets amounted to ₱220.6 million and ₱203.7 million as at September 30, 2017 and December 31, 2016, respectively (see Note 19).

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#### 4. Cash and Cash Equivalents

This account consists of:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Cash on hand	₱5,005,496	₱6,329,849
Cash in banks	1,614,140,702	631,742,244
Cash equivalents	1,850,517,216	-
	<b>₱3,469,663,414</b>	<b>₱638,072,093</b>

Cash in bank earn interest at prevailing deposit rates.

Cash equivalents represent money market placements with interest of 2.5% and have a maturity of 31 to 32 days.

Details of interest income are as follows:

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Available-for-sale financial asset	8	₱48,733,333	₱-	₱26,350,000	₱-
Cash equivalents		22,758,557	-	10,669,012	-
Cash in banks		1,851,994	427,798	826,938	25,586
Short term investment	5	444,444	-	444,444	-
	18	₱73,788,328	₱427,798	₱38,290,394	₱25,586

## 5. Short-term Investments

Short term investment pertains to a money market placement which bears interest at 2.75% per annum and with maturity of 123 days. As at September 30, 2017, short-term investment amounted to ₱500.0 million.

Interest income earned from short term investment amounted to ₱0.4 million for the nine-month period ended September 30, 2017 (see Note 4).

## 6. Trade and Other Receivables

Details of this account are as follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Trade:			
Third parties		₱297,011,490	₱337,631,279
Related parties	21	86,627,038	100,146,597
Advances to suppliers		164,593,698	13,796,318
Interest		25,956,418	-
Rental		3,212,174	15,137,938
Others		58,945,576	1,715,832
		636,346,394	468,427,964
Allowance for impairment losses		(38,001,131)	(45,834,378)
		₱598,345,263	₱422,593,586

Trade receivables are unsecured, noninterest-bearing and have credit terms of 30 to 60 days.

Advances to suppliers pertain to advance payments on purchases of trade and nontrade goods and services which will be refunded or applied against billings.

Rental receivables, which are collectible within one year, include receivables from the lease of gondola lightings, facade billboards, window displays and street banners.

Aging of trade and other receivables are as follows:

As at September 30, 2017 - Unaudited (in thousands)							
	Total	Current	1-30	31-60	61-90	91-120	Over 120
Third parties	P297,011	P62,623	P70,274	P44,028	P23,493	P61,099	P35,494
Related parties	86,627	210	2,032	1,044	2,081	81,260	—
<b>Total Trade Receivables</b>	<b>383,638</b>	<b>62,833</b>	<b>72,306</b>	<b>45,072</b>	<b>25,574</b>	<b>142,359</b>	<b>35,494</b>
Advances to suppliers	164,593	164,593	—	—	—	—	—
Rental	3,212	40	1,035	440	281	1,416	—
Interest	25,956	25,956	—	—	—	—	—
Others	58,947	20,185	7,952	7,425	3,771	17,107	2,507
<b>Total Trade and Nontrade Receivables</b>	<b>636,346</b>	<b>273,607</b>	<b>81,293</b>	<b>52,937</b>	<b>29,626</b>	<b>160,882</b>	<b>38,001</b>
Less: Allowance for impairment losses	38,001	—	—	—	—	—	38,001
<b>Net Receivables</b>	<b>P598,345</b>	<b>P273,607</b>	<b>P81,293</b>	<b>P52,937</b>	<b>P29,626</b>	<b>P160,882</b>	<b>P —</b>

Movements of allowance for impairment losses on receivables are as follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period		P45,834,378	P—
Reversal	17	(11,429,774)	(10,894,782)
Provision	17	8,321,999	—
Write-off		(4,725,472)	—
Transferred from Parent Company		—	56,729,160
<b>Balance at end of period</b>		<b>P38,001,131</b>	<b>P45,834,378</b>

## 7. Merchandise Inventories

Details of this account are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
At cost	P6,491,726,802	P6,459,355,675
At net realizable value	456,638,442	116,488,226
	<b>P6,948,365,244</b>	<b>P6,575,843,901</b>

Merchandise inventories pertain to goods being traded under the normal course of business, which include construction supplies, bathroom and kitchen supplies and equipment and furniture among others, on wholesale and retail basis.

The cost of merchandise inventories stated at net realizable value amounted to P587.5 million and P218.2 million as at September 30, 2017 and December 31, 2016, respectively.

Movements of allowance for inventory write down and losses are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	P101,651,425	P—
Provisions	29,175,121	51,594,828
Transferred from Parent Company	—	50,056,597
<b>Balance at end of period</b>	<b>P130,826,546</b>	<b>P101,651,425</b>

Inventories charged to cost of sales amounted to ₱9,100.8 million and ₱6,174.6 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱3,179.9 million and ₱3,140.6 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 16).

## 8. Available-for-sale Financial Asset

Available-for-sale financial asset represents investment in retail treasury bond quoted at 4.25% issued on April 11, 2017 with maturity of three years. As at September 30, 2017, AFS financial asset amounted to ₱3,041.7 million.

Fair value changes on AFS financial asset amounted to ₱41.7 million and ₱29.2 million respectively for the nine-month and three-month periods ended September 30, 2017.

Interest income earned from AFS financial asset amounted to ₱48.7 million for the nine-month period ended September 30, 2017 (see Note 4).

## 9. Property and Equipment

Details and movements of this account are as follows:

	As at September 30, 2017 (Unaudited)				Total
	Leasehold Improvements	Furniture and Equipment	Transportation Equipment	Construction In Progress	
<b>Cost</b>					
Balance at beginning of period	₱143,583,260	₱255,022,262	₱5,576,964	P-	₱404,182,486
Additions	497,968	146,751,315	10,196,179	190,435,749	347,821,211
Balance at end of period	144,081,228	401,773,577	15,713,143	190,435,749	752,003,697
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of period	9,430,748	52,463,387	390,452	-	62,284,587
Depreciation and amortization	8,374,186	62,506,875	1,104,264	-	71,985,325
Balance at end of period	17,804,934	114,970,262	1,494,716	-	134,269,912
<b>Net book value</b>	<b>₱126,276,294</b>	<b>₱286,803,315</b>	<b>₱14,218,427</b>	<b>₱190,435,749</b>	<b>₱617,733,785</b>

	As at December 31, 2016 (Audited)				Total
	Leasehold Improvements	Furniture and Equipment	Transportation Equipment	Construction In Progress	
<b>Cost</b>					
Transferred from Parent Company	₱31,211,210	₱198,805,682	P-	₱109,369,015	₱339,385,907
Additions	3,003,035	56,216,580	5,576,964	-	64,796,579
Reclassification	109,369,015	-	-	(109,369,015)	-
Balance at end of period	143,583,260	255,022,262	5,576,964	-	404,182,486
<b>Accumulated Depreciation and Amortization</b>					
Depreciation and amortization for the period and balance at end of period	9,430,748	52,463,387	390,452	-	62,284,587
<b>Net book value</b>	<b>₱134,152,512</b>	<b>₱202,558,875</b>	<b>₱5,186,512</b>	<b>P-</b>	<b>₱341,897,899</b>

Construction in progress pertains to costs incurred for building new stores.

Depreciation and amortization are summarized below:

	Note	For the Nine-Month Period Ended September 30		For the Three -Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Audited)
Property and equipment		₱71,985,325	₱40,956,327	₱26,098,149	₱21,705,387
Computer software	10	2,097,296	97,797	1,002,014	78,779
	17	₱74,082,621	₱41,054,124	₱27,100,163	₱21,784,166

#### 10. Other Noncurrent Assets

Details of this account are as follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Security and rental deposits	20	₱175,290,699	₱161,334,786
Noncurrent deferred input VAT		38,143,147	22,292,311
Electricity deposits		34,001,947	16,802,346
Computer software		32,225,197	10,555,309
Refundable cash bonds, net of allowance for impairment losses of ₱83.4 million		-	-
		₱279,660,990	₱210,984,752

Security and rental deposits pertain to refundable deposits and advance rentals to various lessors. These refundable deposits and advance rentals will be returned and applied at the end of the lease term, respectively. As at September 30, 2017 and December 31, 2016, advance rentals to various lessors amounted to ₱71.1 million and ₱64.8 million, respectively.

Electricity deposits pertain to noninterest-bearing refundable deposits to various electric companies. This will be refunded upon termination of the contract.

The Company has refundable cash bonds amounting to ₱83.4 million. These refer to payments made to the Bureau of Customs (BOC) for the release of imported goods purchased by the Parent Company with no established and published values covering importations as required in Republic Act No. 8181, *Transaction Value Act*. The amount of cash bonds to be paid by the Parent Company is determined by the BOC. The amount is refundable once the correct dutiable value or values for the importation have been established. As at September 30, 2017 and December 30, 2016, the refund of cash bonds is still pending with the BOC.

Details of computer software are as follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>Cost</b>			
Balance at beginning of period		₱10,985,329	₱-
Additions		23,767,184	10,985,329
Balance at end of period		34,752,513	10,985,329
(Forward)			

<b>Accumulated Amortization</b>			
Balance at end of period		430,020	–
Amortization	9	2,097,296	430,020
Balance at end of period		2,527,316	430,020
<b>Net book value</b>		<b>₱32,225,197</b>	<b>₱10,555,309</b>

### 11. Short-term Debt

Short-term loans amounting to ₱200.0 million and ₱445.0 million as at September 30, 2017 and December 31, 2016 respectively, bear interest of 1.75%.

Interest expense amounted to ₱5.7 million and ₱6.9 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱0.9 million and ₱5.0 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 12).

### 12. Long-term Debt

Details of long-term debt are as follows:

	Terms	Principal	Outstanding Balance	
			September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Loan 1	Lump-sum payment on June 2022	₱198,461,539	₱198,461,539	₱–
Loan 2	Monthly installment payment until March 2018	100,000,000	60,000,000	75,000,000
Loan 3	Quarterly installment payment until March 2020	320,000,000	120,000,000	280,000,000
Loan 4	Monthly installment payment until August 2021	210,000,000	25,000,000	150,769,231
Loan 5	Monthly installment payment until August 2021	170,000,000	25,000,000	122,051,282
Loan 6	Quarterly installment payment until December 2019	500,000,000	–	300,000,000
		<b>₱1,498,461,539</b>	<b>428,461,539</b>	<b>927,820,513</b>
Current portion			<b>(139,999,999)</b>	<b>(278,461,539)</b>
Noncurrent portion			<b>₱288,461,540</b>	<b>₱649,358,974</b>

The loans bear interest ranging from 2.50% to 3.0% for the nine-month periods ended September 30, 2017 and 2016.

Interest expense is summarized below:

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Long-term		₱13,754,605	₱13,897,072	₱3,048,344	₱4,979,948
Short-term	11	5,749,153	6,932,445	894,444	5,012,291
		<b>₱19,503,758</b>	<b>₱20,829,517</b>	<b>₱3,942,788</b>	<b>₱9,992,239</b>

As at September 30, 2017 and December 31, 2016, certain loans are collateralized by property and equipment and investment properties of the Parent Company with a carrying value of ₱791.8 million and ₱725.2 million, respectively.

The maturities of the long-term debt are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Less than one year	₱139,999,999	₱278,461,539
Between one to two years	40,000,000	516,923,077
Between two to five years	248,461,540	132,435,897
	<b>₱428,461,539</b>	<b>₱927,820,513</b>

### 13. Trade and Other Payables

Details of this account are as follows:

	Note	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>Trade:</b>			
Third parties		₱2,248,945,866	₱2,307,558,266
Related parties		572,342,707	901,164,379
<b>Accrued expenses:</b>			
Others		201,960,330	38,184,017
Rent	20	83,807,688	42,680,810
Trucking services		33,121,280	16,237,760
Utilities		17,284,175	62,536,306
Advances from customers		192,472,735	151,970,218
<b>Nontrade:</b>			
Third parties		167,258,838	39,524,714
Related parties	21	8,547,764	-
Others		75,578,849	59,823,030
		<b>₱3,601,320,232</b>	<b>₱3,619,679,500</b>

Trade payables and accrued expenses are generally settled in varying periods depending on arrangement with suppliers, normally within 30 to 90 days.

Accrued expenses refer to accruals for utilities, rentals from related parties and third parties, trucking services, postage and telecommunications, outside services, salaries and wages, and other

expenses incurred which are payable in the succeeding month.

Advances from customers pertain to refundable payments and deposits made by the customers pending the delivery of goods purchased. Refundable deposits amounted to ₱99.0 million and ₱87.1 million as at September 30, 2017 and December 31, 2016, respectively.

Nontrade payables pertain to unpaid advertising and promotions, rentals, utilities, and transportation and travel, which are payable in the succeeding month.

Others pertain to unearned revenue on loyalty program, unredeemed gift certificates, salaries payable, withholding taxes and statutory obligations.

#### 14. Retirement Benefits

The Company has an unfunded, noncontributory, defined benefit retirement plan covering all of its eligible employees. The latest actuarial valuation report was dated as at September 30, 2016.

Retirement benefits are as follows:

	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
	2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Current service cost	₱23,673,814	₱19,830,242	₱7,710,915	₱19,830,242
Interest cost	14,458,184	-	4,819,395	-
	<b>₱38,131,998</b>	<b>₱19,830,242</b>	<b>₱12,530,310</b>	<b>₱19,830,242</b>

Components of retirement liability recognized in the statement of financial position are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Present value of defined benefit obligation	₱452,703,585	₱414,571,587
Fair value of plan asset	(14,952,135)	-
Balance at end of period	<b>₱437,751,450</b>	<b>₱414,571,587</b>

The changes in the present value of the defined benefit obligation are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Balance at beginning of period	₱414,571,587	₱-
Retirement benefits	38,131,998	29,745,363
Transferred from Parent Company	-	371,054,331
Remeasurement loss	-	13,771,893
Balance at end of period	<b>₱452,703,585</b>	<b>₱414,571,587</b>

Contributions to plan asset was made amounting to ₱15.0 million on September 26, 2017.



The principal actuarial assumptions used to determine the retirement liability as at September 30, 2017 and December 31, 2016 are as follows:

Discount rate	4.65%
Annual salary increase rate	8.00%

Sensitivity analysis on retirement liability is as follows:

	Basis Points	Amount
Discount rate	+100	(₱71,825,943)
	-100	91,543,937
Salary rate	+100	83,336,718
	-100	(67,646,560)
Turnover rate	0%	132,750,497

As at September 30, 2017, the expected future benefits payments are as follows:

Year	Amount
2018	₱7,344,000
2019	-
2020	382,395
2021	4,109,643
2022 to 2026	38,623,444
	<u>₱50,459,482</u>

## 15. Equity

Details of capital stock are as follow:

	September 30, 2017 (Unaudited)		December 31, 2016 (Audited)	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized - at ₱1 par value</b>				
Balance at beginning of period	5,000,000,000	₱5,000,000,000	200,000,000	₱200,000,000
Increase	-	-	4,800,000,000	4,800,000,000
Balance at end of period	<u>5,000,000,000</u>	<u>₱5,000,000,000</u>	<u>5,000,000,000</u>	<u>₱5,000,000,000</u>
<b>Issued and outstanding:</b>				
Balance at beginning of period	2,705,817,916	₱2,705,817,916	50,000,000	₱50,000,000
Issuances	1,393,906,200	1,393,906,200	2,655,817,916	2,655,817,916
Balance at end of period	<u>4,099,724,116</u>	<u>₱4,099,724,116</u>	<u>2,705,817,916</u>	<u>₱2,705,817,916</u>

On April 12, 2016, the Company's BOD and stockholders approved the increase in authorized capital stock of the Company from ₱200.0 million, consisting of 200,000,000 shares of common stock with par value of ₱1.00 per share, to ₱5,000.0 million, consisting of 5,000,000,000 shares of common stock with par value of ₱1.00 per share.

On the same date, the Parent Company subscribed to 2,655.8 million shares of stock of the Company in exchange for the net assets of its Trading Business amounting to ₱2,655.8 million determined as at March 31, 2016 (see Note 1).

On November 15, 2016, the SEC approved the increase in authorized capital stock and the transfer of net assets in exchange for shares of stock of the Company (see Note 1).

On March 31, 2017, the Company listed 1,393,906,200 common shares in the PSE at an offer price of ₱5.05 per share. Net proceeds from IPO amounted to ₱6,750.1 million. The Company incurred transaction costs incidental to the IPO amounting to ₱271.6 million which was subsequently charged against additional paid-in capital.

The net proceeds from the IPO were used to fully settle short-term and long-term loan obligations, store network expansion and general corporate purposes.

The unapplied proceeds from the IPO are maintained in various current and savings accounts, money market placements and marketable equity securities.

## 16. Cost of Sales

Details of this account are as follows:

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Merchandise inventories at beginning of period	7	₱6,575,843,901	₱7,214,079,609	₱6,653,131,287	₱7,507,747,989
Net purchases		9,473,368,473	5,751,114,457	3,475,145,953	2,423,433,104
Goods available for sale		16,049,212,374	12,965,194,066	10,128,277,240	9,931,181,093
Merchandise inventories at end of period	7	6,948,365,244	6,790,603,623	6,948,365,244	6,790,603,623
		₱9,100,847,130	₱6,174,590,443	₱3,179,911,996	₱3,140,577,470

## 17. Operating Expenses

Details of this account are as follows:

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Rent	20	₱551,086,820	₱352,778,062	₱189,734,615	₱181,822,073
Outsourced services		523,005,418	275,981,304	191,137,141	128,646,088
Salaries, wages and employees' benefits		456,126,915	306,391,788	155,332,121	147,911,060
Utilities		283,469,305	125,176,373	87,428,805	24,454,965
Trucking services		247,110,710	141,737,911	123,487,986	114,191,156
Taxes and licenses		127,769,196	79,137,266	34,010,698	40,347,062
Credit card charges		109,358,045	73,848,975	38,037,580	32,970,681
Depreciation and amortization	9	74,082,621	41,054,124	27,100,163	21,784,166

(Forward)

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Advertising and promotions		₱62,518,870	₱26,860,589	₱29,351,033	₱15,549,341
Repairs and maintenance		44,131,178	27,033,240	11,431,982	13,421,862
Supplies		40,339,439	29,988,502	17,140,990	15,382,411
Postage, telephone and telegraph		21,105,106	8,744,397	6,913,311	4,073,332
Donations and contributions		20,176,928	3,286,195	9,800,457	1,557,695
Professional fees		15,155,350	3,398,799	3,855,946	691,906
Transportation and travel		13,706,628	2,620,744	4,385,687	2,173,193
Fuel and oil		6,773,641	5,321,445	2,362,002	4,657,140
Provision for (reversal of) allowance for impairment losses on receivables	6	(3, 107,775)	27,880,783	(716,606)	27,880,783
Others		17,895,886	6,353,493	6,934,561	2,694,741
		<b>₱2,610,704,281</b>	<b>₱1,537,593,990</b>	<b>₱937,728,472</b>	<b>₱780,209,655</b>

## 18. Other Income

Details of this account are as follow:

	Note	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
		2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Interest	4	₱73,788,328	₱427,798	₱38,290,394	₱25,586
Rent	20	12,209,107	5,244,957	3,331,893	3,315,193
Others		77,298,530	25,696,473	27,997,816	17,141,516
		<b>₱163,295,965</b>	<b>₱31,369,228</b>	<b>₱69,620,103</b>	<b>₱20,482,295</b>

Rent income pertains to lease of gondola lightings, facade billboards, window displays and street banners.

Other income includes amounts charged to and from the suppliers for the use of billboards and signage, office supplies, promotion rebates and other reimbursable costs.

## 19. Income Tax

The current income tax expense for the nine-month period ended September 30, 2017 and 2016 amounting to ₱356.2 million and ₱127.2 million, respectively, and for the three-month period ended

September 30, 2017 and 2016 amounting to ₱156.7 million and ₱29.7 million, respectively, represents regular corporate income tax.

The Company will be subject to minimum corporate income tax in the taxable year 2019, which is the fourth taxable year immediately following the year of the Company's registration with the BIR on December 17, 2015.

The reconciliation between income tax expense at statutory tax rate and income tax expense presented in the unaudited interim condensed statement of comprehensive income is as follows:

	For the Nine-Month Period Ended	
	September 30	
	2017	2016
	(Unaudited)	(Audited)
Income tax expense at statutory rate	₱437,772,871	₱108,231,580
Income tax effects of:		
Stock transaction costs	(80,198,460)	-
Interest income already subjected to final tax	(22,136,498)	(128,339)
Nondeductible expenses	5,851,127	52,940
Effect of net asset transferred	-	(174,032,434)
	<b>₱341,289,040</b>	<b>(₱65,876,253)</b>

Net deferred tax assets relate to the tax effect of the temporary differences as follows:

	September 30, 2017	December 31, 2016
	(Unaudited)	(Audited)
Deferred tax assets:		
Retirement liability	₱131,325,435	₱124,371,476
Allowance for impairment of refundable cash bonds	25,022,980	25,022,980
Allowance for inventory write down and losses	39,247,964	30,495,428
Allowance for impairment losses on receivables	11,400,339	13,750,313
Unearned revenue from loyalty program	10,867,166	8,227,996
Accrued rent on straight-line basis	2,745,756	1,822,779
	<b>220,609,640</b>	<b>203,690,972</b>
Deferred tax liabilities:		
Advance rentals	(21,463,583)	(19,429,200)
Unrealized foreign exchange gain	(3,314)	-
	<b>(21,466,897)</b>	<b>(19,429,200)</b>
	<b>₱199,142,743</b>	<b>₱184,261,772</b>

The presentation of net deferred tax assets are as follows:

	September 30, 2017	December 31, 2016
	(Unaudited)	(Audited)
Through profit or loss	₱195,011,175	₱180,130,204
Through other comprehensive income	4,131,568	4,131,568
	<b>₱199,142,743</b>	<b>₱184,261,772</b>

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## 20. Leases

### *The Company as a Lessee*

The Company has various lease agreements with the related parties and third parties for the use of land, buildings, transportation equipment and computer software for a period of one to fifteen years. These leases are renewable upon mutual agreement. The monthly rental is subject to escalation.

Security and rental deposits, which pertain to refundable deposit and advance rentals, amounted to ₱175.3 million and ₱161.3 million as at September 30, 2017 and December 31, 2016, respectively (see Note 10). The refundable deposits and advance rentals will be returned and applied at the end of the lease term, respectively. Accrued rent as at September 30, 2017 and December 31, 2016 amounted to ₱83.8 million and ₱42.7 million, respectively (see Note 13).

Rent expense amounted to ₱551.1 million and ₱352.8 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱189.7 million and ₱181.8 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 17).

Future minimum rental payments under operating lease as at September 30, 2017 are as follows:

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
Within one year	₱729,684,661	₱636,895,911
After one year but not more than five years	754,869,299	1,473,625,700
More than five years	-	113,199,816
	<u>₱1,484,553,960</u>	<u>₱2,223,721,427</u>

### *The Company as a Lessor*

The Company has existing lease agreements on commercial spaces, gondola lightings, facade billboards, window displays and street banners with lease terms of less than a year. The leases are renewable upon mutual agreement by the parties.

Rent income amounted to ₱12.2 million and ₱5.2 million for the nine-month periods ended September 30, 2017 and 2016, respectively, and ₱3.3 million and ₱3.3 million for the three-month periods ended September 30, 2017 and 2016, respectively (see Note 18). Rental receivables amounted to ₱3.2 million and ₱15.1 million as at September 30, 2017 and December 31, 2016, respectively.

**21. Related Party Transactions and Balances**

The Company, in the normal course of business, has various transactions and balances with its related parties in 2017 and 2016, as described below.

Related Party Parent Company	Nature of Transactions	Period	Transactions during the Period	Trade Receivables (see Note 6)	Miscellaneous Receivables	Trade Payables	Nontrade Payable (see Note 13)	Accrued Expenses/Purchases
Entities under Common Control*	Transfer of Trading business	September 30, 2017	\$35,978,324	P-	-	\$415,490,068	P-	P-
	Noninterest-bearing advances	September 30, 2017	2,655,817,916	-	-	748,555,638	-	-
	Rental expenses	December 31, 2016	599,471,322	-	-	-	-	-
	Purchases of goods	September 30, 2017	394,848,014	-	-	-	6,553,472	58,054,175
	Reimbursement of expenses	December 31, 2016	323,178,971	-	-	-	-	31,740,971
	Sale of goods	September 30, 2017	236,369,607	-	-	-	-	-
	Miscellaneous & rent income	December 31, 2016	50,604,575	-	-	37,169,225	-	-
	Trucking services	September 30, 2017	146,265,594	-	-	-	-	12,606,626
	Purchases of goods	September 30, 2016	250,276,813	-	-	-	-	62,536,306
	Reimbursement of expenses	September 30, 2017	8,868,968	950,292	-	-	-	-
	Miscellaneous	December 31, 2016	4,420,288	1,499,537	-	-	-	-
	Purchases of goods	September 30, 2016	-	-	-	17,548	-	-
	Reimbursement of expenses	September 30, 2017	982,165,888	-	-	65,408,715	-	91,443,923
	Trucking services	December 31, 2016	1,414,492,237	-	-	115,439,516	-	-
	Rental expenses	September 30, 2017	41,395,131	-	-	-	-	20,129,886
	Stockholder	Rental expenses	September 30, 2017	112,592,100	-	-	-	-
Sale of goods		December 31, 2016	10,760,644	-	-	-	1,994,292	4,185,670
Miscellaneous and rent income		September 30, 2017	55,072,026	-	-	-	-	-
Rental expenses		December 31, 2016	(701,974)	84,609,271	-	-	-	-
Sale of goods		September 30, 2017	26,337,166	98,647,060	-	-	-	-
Rental expenses		December 31, 2016	15,180,089	-	3,651,944	-	-	-
Sale of goods		September 30, 2017	10,760,644	-	-	-	-	-
Rental expenses		December 31, 2016	10,939,839	-	-	-	-	10,939,839
Sale of goods		September 30, 2017	1,712,536	1,067,475	-	-	-	-
		December 31, 2016	-	-	-	-	-	-
	September 30, 2017	\$86,627,038	\$3,669,492	\$480,898,783	\$8,547,764	\$186,420,280		
	December 31, 2016	100,146,597	-	901,164,379	-	105,217,116		

\*Certain entities under common control were related parties up to September 2016.

Transactions with related parties are as follows:

- a. Purchases and sales of merchandise inventories and trucking services with Parent Company and entities under common control. Purchases from entities under common control are subject to rebates based on certain percentage of sales from goods purchased from entities under common control.
- b. Various existing lease agreements with the Parent Company and related parties for the use of land, buildings, transportation equipment and computer software for a period of one to five years (see Note 20).
- c. Power and electricity, water, postage, telephone and telegraph billed by the Parent Company to the Company at cost plus mark-up.

Outstanding balance of trade and nontrade payables are generally settled in varying periods depending on arrangement with suppliers, normally within 30 to 90 days.

**Compensation of Key Management Personnel**

Compensation of key management personnel by benefit type, are as follows:

	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
	2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Short-term employee benefits	₱32,332,898	₱18,042,065	₱18,636,690	₱8,754,974
Retirement benefits	4,852,460	1,248,522	1,594,536	(13,220)
	<b>₱37,185,358</b>	<b>₱19,290,587</b>	<b>₱20,231,226</b>	<b>₱8,741,754</b>

**22. Earnings per Share**

Basic and dilutive earnings per share were computed as follows:

	For the Nine-Month Period Ended September 30		For the Three-Month Period Ended September 30	
	2017 (Unaudited)	2016 (Audited)	2017 (Unaudited)	2016 (Unaudited)
Net income	₱1,117,953,864	₱426,648,186	₱355,283,424	₱135,854,106
Divided by the weighted average number of outstanding shares	3,635,088,716	1,820,545,277	3,635,088,716	1,820,545,277
	<b>₱0.31</b>	<b>₱0.23</b>	<b>₱0.10</b>	<b>₱0.07</b>

**23. Financial Risk Management Objectives and Policies**

The Company's principal financial instruments consist of cash and cash equivalents, short-term investments, trade receivables and payables (excluding statutory liabilities, unredeemed gift certificates and unearned revenue), AFS financial asset, and short-term and long-term debt. The main purpose of these financial instruments is to fund the Company's operations.

The Company is exposed to a variety of financial risks which result from both its operating and investing activities. The Company's risk management is coordinated with the BOD, and focuses on actively securing the Company's short to medium-term cash flows by minimizing the exposure to financial market.

The main financial risks arising from the financial instruments are credit risk, liquidity risk and interest rate risk. The BOD regularly reviews and approves the appropriate policies for managing these financial risks, as summarized below.

*Credit Risk.* Credit risk is the risk that the Company will incur a loss because its counterparties fail to discharge their contractual obligations. Receivables are monitored on an on-going basis with the result that the Company's exposure to possible losses is not significant.

*Liquidity Risk.* Liquidity risk is the risk that the Company will not be able to settle its obligations when these fall due. The Company monitors and maintains a level of cash deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

*Interest Rate Risk.* Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates.

The Company regularly monitors interest rate movements and on the basis of current and projected economic and monetary data, decides on the best alternative to take.

#### **Capital Management**

The primary objective of the Company's management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company monitors capital on the basis of debt-to-equity ratio and makes adjustments to it in light of changes in economic conditions and its financial position. This ratio is calculated as total debt divided by total equity. Total debt includes total liabilities and deposits for future stock subscriptions.

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#### **24. Fair Value of Financial Instruments**

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

*Cash and cash equivalents, trade and other receivables, container, security, rental and electricity deposits, refundable cash bonds, short-term debt and trade and other payables.* The carrying amounts of cash and cash equivalents, short-term investments, trade and other receivables, container deposits, short-term debt, and trade and other payables approximate their fair values primarily due to the relatively short-term maturity of these financial instruments. Container, security, rental and electricity deposit are under Level 2 of the fair value measurements hierarchy for financial instruments.

*AFS Financial Asset.* The fair value of the Company's AFS financial asset which represents investment in retail treasury bond is estimated by reference to quoted dib price in an active market at the end of the reporting period and is categorized as Level 2.



*Long-term debt.* The carrying amount of long-term debt approximates its fair value because the interest rate that it carries approximates the interest rate for comparable instrument in the market.

In 2017 and 2016, there were no transfers among Level 1, Level 2 and Level 3 fair value measurements.

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT AND WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**  
**Doing Business under the Name and Style of WILCON CITY CENTER)**

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**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017**

Retained earnings at beginning of period as shown in the financial statements	P886,247,051
Net income during the period closed to retained earnings	1,117,953,864
Deferred tax assets related to temporary differences that flow through profit or loss	(199,142,743)

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**Retained earnings as at end of period available for dividend declaration** **P1,805,058,172**

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Reconciliation:

Retained earnings at end of period as shown in the financial statements	P2,004,200,915
Deferred tax assets related to temporary differences that flow through profit or loss	(199,142,743)

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**Retained earnings as at end of period available for dividend declaration** **P1,805,058,172**

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**WILCON DEPOT, INC.**  
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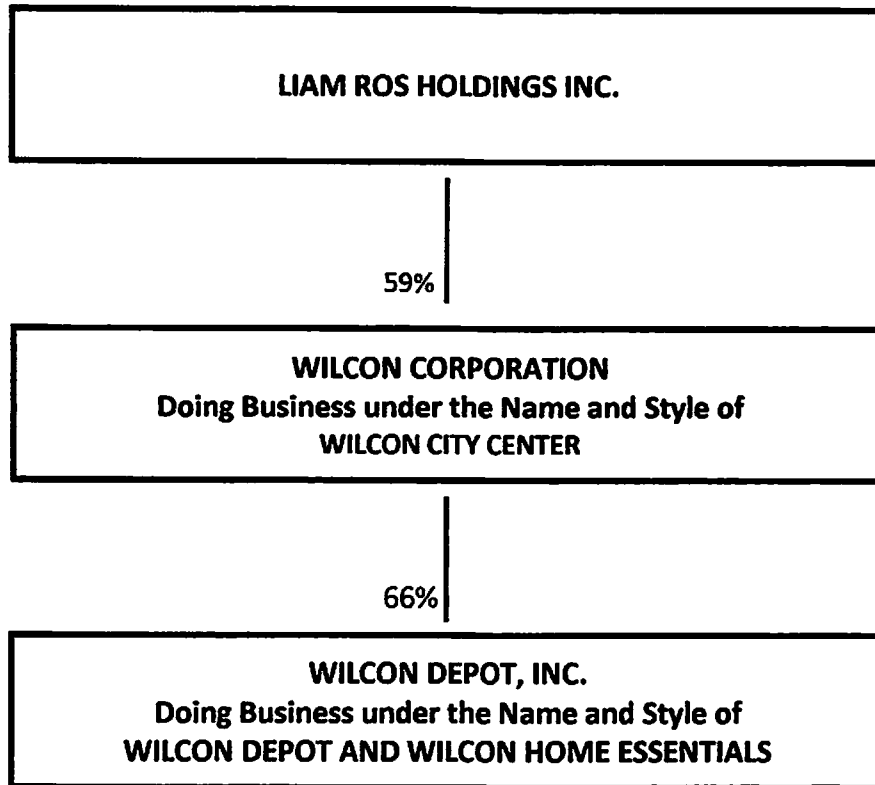
**FINANCIAL SOUNDNESS INDICATORS**  
**AS AT AND FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2017 AND**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	September 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>Liquidity Ratio</b>		
Current ratio	<b>2.98:1</b>	<b>1.87:1</b>
Quick ratio	<b>0.99:1</b>	<b>0.24:1</b>
<b>Solvency Ratio</b>		
Debt to equity ratio	<b>0.42:1</b>	<b>1.55:1</b>
<b>Profitability Ratio</b>		
Return on assets	<b>8.78%</b>	<b>9.70%</b>
Return on equity	<b>9.71%</b>	<b>24.75%</b>
Book value per share	<b>₱2.81</b>	<b>₱1.32</b>
Gross margin	<b>30.14%</b>	<b>26.82%</b>
Earnings before interest, tax, depreciation and amortization (EBITDA) margin	<b>11.91%</b>	<b>9.01%</b>
Net income margin	<b>8.58%</b>	<b>7.21%</b>

**WILCON DEPOT, INC.**  
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**CORPORATE STRUCTURE**  
**AS AT SEPTEMBER 30, 2017**



**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**

**Doing Business under the Name and Style of WILCON CITY CENTER)**

**SUPPLEMENTARY SCHEDULE OF APPLICATION OF PROCEEDS**

**AS AT SEPTEMBER 30, 2017**

	Estimated	Actual	Balance
<b>Gross Proceeds</b>	<b>₱7,039,226,310</b>	<b>₱7,039,226,310</b>	<b>₱-</b>
<b>Offering Expenses</b>	<b>(299,376,310)</b>	<b>(289,132,001)</b>	<b>(10,244,309)</b>
<b>Net Proceeds</b>	<b>₱6,739,850,000</b>	<b>₱6,750,094,309</b>	<b>(₱10,244,309)</b>

The actual offer expenses are less than the estimated amount. The Company allocated the proceeds amounting to ₱10.2 million to store network expansion based on the Prospectus.

The details of the estimated and actual application of the proceeds are as follow:

	Estimated	Actual	Balance
<b>Gross Proceeds</b>	<b>₱7,039,226,310</b>	<b>₱7,039,226,310</b>	<b>₱-</b>
<b>Use of the Proceeds</b>			
Debt repayment	(428,100,000)	(428,100,000)	-
General corporate purposes	(200,000,000)	(200,000,000)	-
Store network expansion	(6,121,994,309)	(166,917,142)	(5,954,077,167)
	<b>(6,750,094,309)</b>	<b>(795,017,142)</b>	<b>(5,954,077,167)</b>
<b>Offer expenses</b>	<b>(289,132,001)</b>	<b>(289,897,803)</b>	<b>765,802</b>
<b>Unapplied Proceeds</b>	<b>₱-</b>	<b>₱5,954,311,365</b>	<b>(₱5,953,311,365)</b>

**WILCON DEPOT, INC.**  
**Doing Business under the Name and Style of**  
**WILCON DEPOT and WILCON HOME ESSENTIALS**  
**(A Subsidiary of WILCON CORPORATION**  
**Doing Business under the Name and Style of WILCON CITY CENTER)**

**SUPPLEMENTARY SCHEDULE OF ADOPTION OF**  
**EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS**  
**SEPTEMBER 30, 2017**

Title	Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRSs Practice Statement Management Commentary		✓	

**Philippine Financial Reporting Standards (PFRS)**

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts	✓		
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓

### Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16: Property, Plant and Equipment	✓		



PAS	Title	Adopted	Not Adopted	Not Applicable
	- Clarification of Acceptable Methods of Depreciation and Amortization			
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates			✓
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Holders of Equity Instruments			
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

### Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes	✓		
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

**PHILIPPINE INTERPRETATIONS - SIC**

<b>Interpretations</b>	<b>Title</b>	<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓