BUILDING BIG IDEAS

COMPANY PROFILE

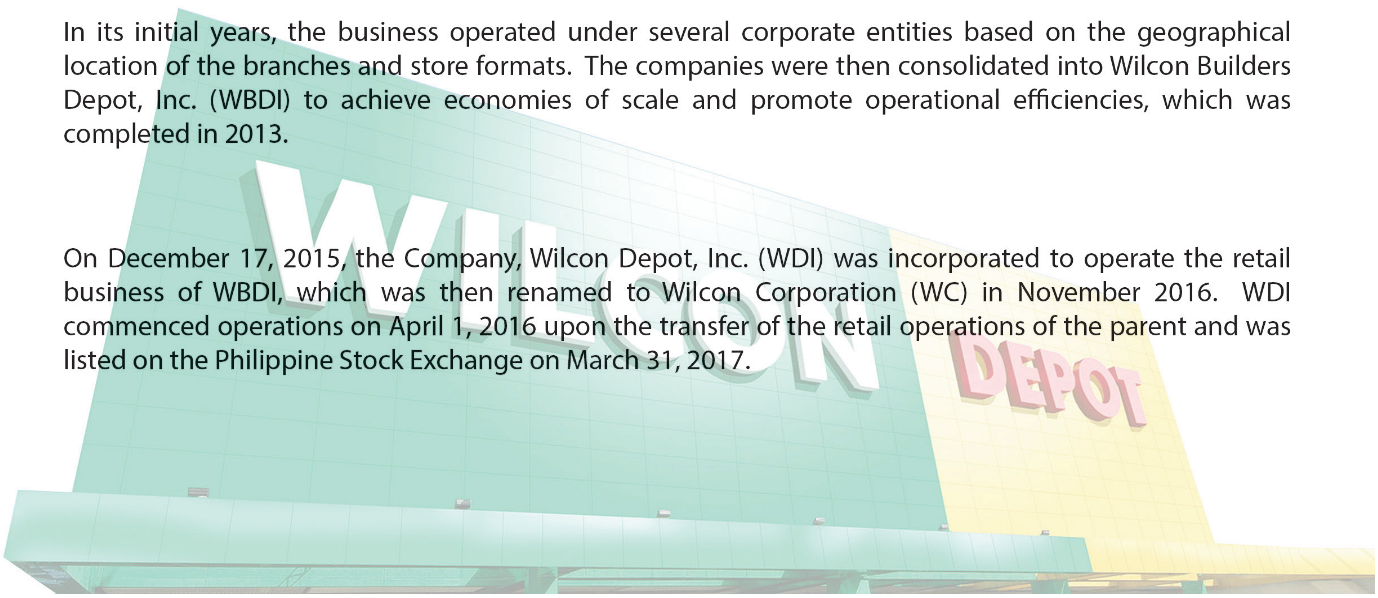
Wilcon Depot, Inc. (PSE: WLCON) is the Philippines' leading home improvement and construction supplies retailer. It caters to the fast-growing segment of middle- to high-income homeowners whose needs range from new home construction, renovation, repair and maintenance to home improvement, furnishing and design. Wilcon is top-of-mind among homebuilders and homeowners looking to build or renovate their homes with its complete spectrum of product offerings. Wilcon carries local and international brands of tiles, sanitary wares and plumbing, hardware and tools, and other DIY items such as electrical and lighting, paints and building materials, doors and mouldings, and also household items such as furniture and home interiors, appliances and housewares, among others. Despite having a huge collection of products, Wilcon maintains ease in shopping through its organized and clutter-free environment.

Wilcon traces its roots to 1977 when its founder, Mr. William T. Belo, opened his first branch, a modest 60-sqm hardware store, in Quezon City. He gradually expanded the pioneer Wilcon branch as business picked up, opening three more Metro Manila branches with an average area of 2,400 sqm from 1989 to 1995.

Wilcon's first foray outside Metro Manila was in 2002 when it opened a branch in Davao City. In its continued efforts to find ways of delivering the best service to its customers, Wilcon built its first depot-format store in Las Pinas in 2003. The depot-format is a new store concept for the business at that time and at 10,000 sqm, much larger than the older branches with a more comprehensive product selection. The depots offered more comfortable shopping experience with free parking spaces, brand showrooms, reliable delivery service and knowledgeable sales personnel. Over the next 13 years, Wilcon rapidly expanded its operations with the opening of 27 more depot format stores around the country.

In its initial years, the business operated under several corporate entities based on the geographical location of the branches and store formats. The companies were then consolidated into Wilcon Builders Depot, Inc. (WBDI) to achieve economies of scale and promote operational efficiencies, which was completed in 2013.

On December 17, 2015, the Company, Wilcon Depot, Inc. (WDI) was incorporated to operate the retail business of WBDI, which was then renamed to Wilcon Corporation (WC) in November 2016. WDI commenced operations on April 1, 2016 upon the transfer of the retail operations of the parent and was listed on the Philippine Stock Exchange on March 31, 2017.

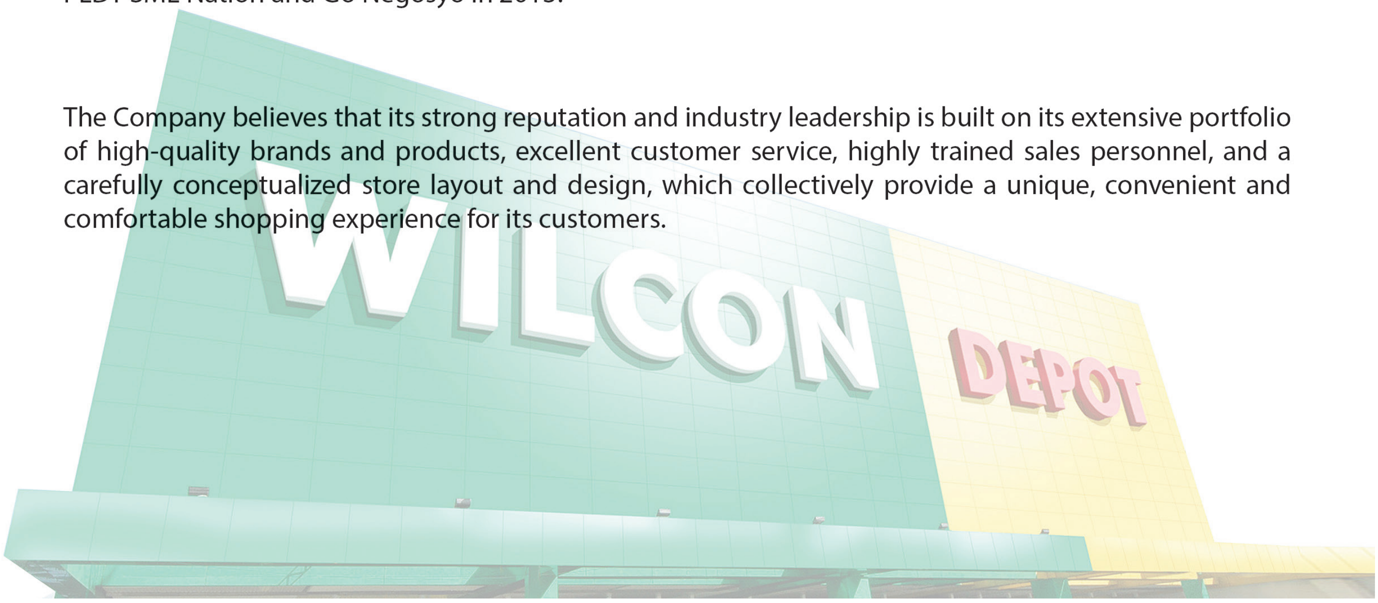


Over the years, Wilcon has garnered numerous awards and recognitions from its suppliers, cities and municipalities where its stores are located, and several organizations and associations. The following are some of its notable awards:

- 2017 – Annual Best Retail Sales Award Asia Pacific 2017
- 2015 – James Hardie Trailblazer Award
- 2017, 2016, 2015, 2014, 2013, 2012 – Ogills Pinnacle Awardee
- 2015, 2014, 2013 – Dewalt Tough Ten Award
- 2011 – Valenzuela City Top Job Provider
- 2008, 2007 – Philippine Retailer's Association Most Outstanding Retailer "Killer Category"
- 2008 – Dewalt Top Dealer
- 2007 – Kohler Top Sales
- 2005 – Mariwasa Siam Top Distributor
- Recognized by industry organizations such as UAP, PIA, PIID, PCA, PRA as active partners.

Aside from the above awards, the founder, Mr. William T. Belo, received the prestigious Bossing Award from PLDT SME Nation and Go Negosyo in 2013.

The Company believes that its strong reputation and industry leadership is built on its extensive portfolio of high-quality brands and products, excellent customer service, highly trained sales personnel, and a carefully conceptualized store layout and design, which collectively provide a unique, convenient and comfortable shopping experience for its customers.



Visit a Wilcon Branch near you!

WILCON DEPOT

METRO MANILA

QUEZON CITY

BALINTAWAK
EDSA, Balintawak, Quezon City

LIBIS
E. Rodriguez Jr. Ave., Libis, Quezon City

QUIRINO
Mindanao Ave., Brgy. Talipapa, Quezon City

FAIRVIEW
Commonwealth, Quezon City

QUEZON AVENUE
Quezon Ave., Quezon City

VALENZUELA CITY

VALENZUELA
Mc Arthur High-way, Dalandanan, Valenzuela City

ALABANG

ALABANG
Alabang Zapote Rd., Almanza Uno, Las Piñas City

FILINVEST
Filinvest Corporate City, Muntinlupa City

MAKATI CITY

PASONG TAMO
Pasong Tamo beside Cityland Tower, Makati City

WILCON IT HUB
Pasong Tamo Extension, Makati City

PARAÑAQUE CITY

SUCAT
San Dionisio, Sucat, Paranaque City

RIZAL

TAYTAY
Manila East Rd., Brgy. San Juan, Taytay, Rizal

ANTIPOLO CITY
Marcos Hi-way, Brgy. Mayamot, Antipolo City

BULACAN

BALIUAG
DRT Hi-way, Brgy.Tarcan, Baliuag, Bulacan

LAGUNA

CALAMBA CITY
National Rd., Brgy. Halang, Calamba City

SAN PABLO CITY
Brgy.Bagong Bayan, San Pablo City

STA.ROSA
Brgy. Pulong Sta.Cruz, Sta.Rosa, Laguna

CAVITE

DASMARIÑAS
Governors Drive, Paliparan I Dasmariñas City, Cavite

KAWIT
Centennial Rd. Brgy Magdalo Kawit, Cavite

BACOOR
Molino Blvd. Bacoor Cavite

ILOCOS NORTE

LAOAG CITY
Airport Road, Brgy. Buttong, Laoag City

PANGASINAN

VILLASIS
Brgy. Bacag Villasis, Pangasinan

PAMPANGA

MEXICO
Brgy. Lagundi, Mexico, Pampanga

DAU
Mc. Arthur Hi-way, Brgy. Dau, Mabalacat, Pampanga

SAN FERNANDO
Olongapo-Gapan Rd. Dolores, San Fernando City, Pampanga

TARLAC

TARLAC CITY
Mc. Arthur Hi-way, San Rafael, Tarlac City

BATANGAS

BATANGAS CITY
Diversion Rd., Brgy. Alangilan, Batangas City

CEBU

MANDAUE CITY
U.N. Ave., Umapad, Mandaue City, Cebu

TALISAY CITY
Lawaan 2, Talisay City, Cebu

DAVAO CITY

DAVAO CITY
Mc. Arthur Hi-Way, Matina, Davao City

AGUSAN DEL NORTE

BUTUAN CITY
Baan Kilometer 3 Brgy. Ampayon, Butuan City, Agusan del Norte

WILCON HOME ESSENTIALS

MUÑOZ
EDSA, Bahay Toro, Quezon City

MINDANAO AVE.
Mindanao Ave., Quezon City

STA.MESA
Sampaloc, Manila

PASAY
EDSA, Malibay, Pasay City

ALIMALL, QUEZON CITY
Araneta Center, Quezon City

CITY CENTER, VISAYAS AVE.
Visayas Ave., Brgy. Bahay Toro, Quezon City

BUILDING BIG IDEAS SOON

BACOLOD CITY

CAGAYAN DE ORO

ZAMBOANGA CITY

GEN.SANTOS CITY

ILOILO CITY

NAGA CITY

CABANATUAN CITY

SILANG, CAVITE

TACLOBAN CITY

DAVAO

STO. TOMAS, BATANGAS

CAUAYAN, ISABELA

TAGUM CITY

CALUMPIT, BULACAN

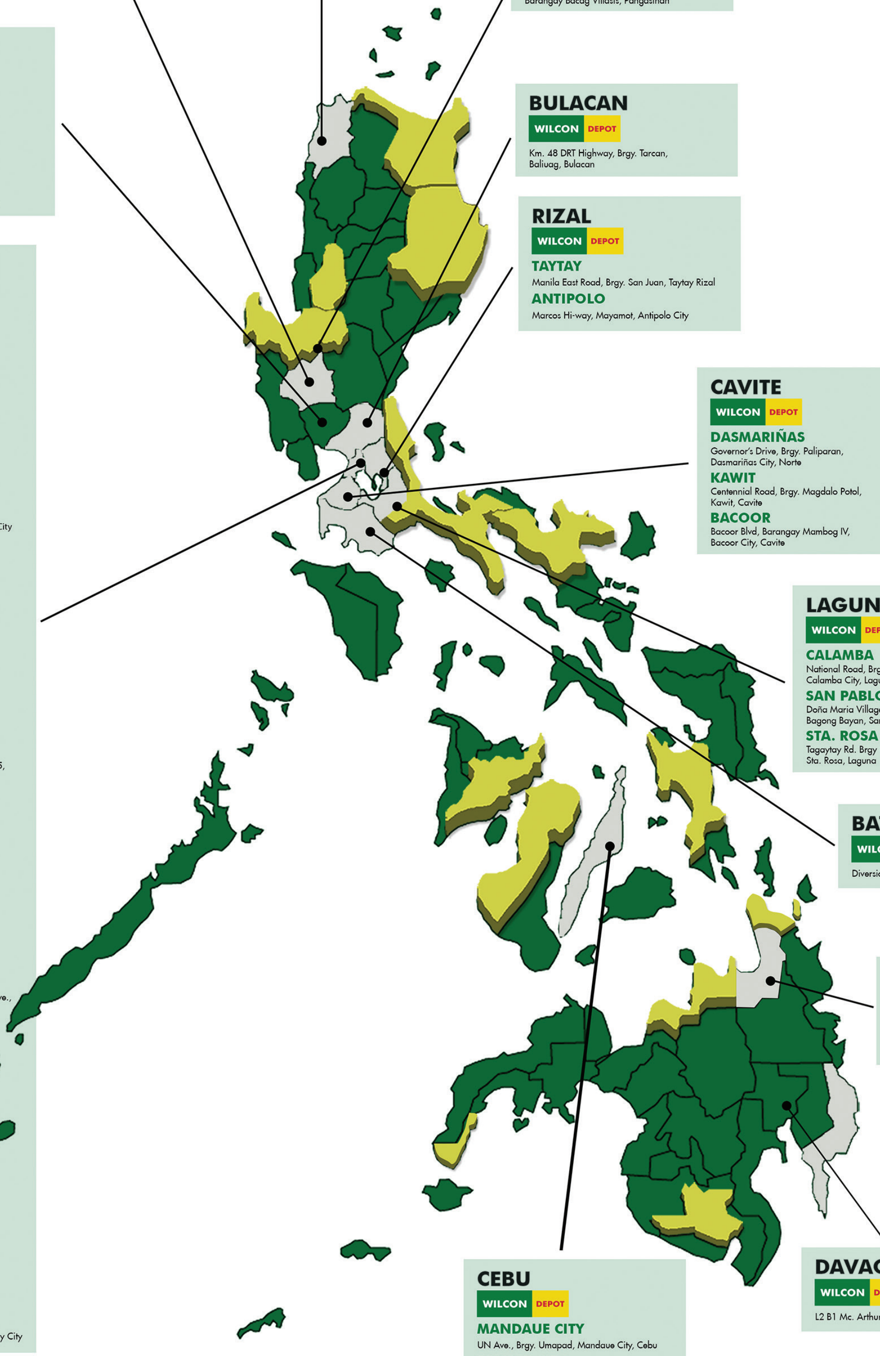
PILA, LAGUNA

SANTIAGO CITY, ISABELA

TAYABAS, QUEZON

TUGUEGARAO CITY

SURIGAO



ILOCOS NORTE
WILCON DEPOT
LAOAG CITY
Airport Road, Brgy. Buttong, Laoag City

TARLAC
WILCON DEPOT
Mc. Arthur H-way, Sta. Monica Village, San Rafael, Tarlac City

PANGASINAN
WILCON DEPOT
VILLASIS
Barangay Bacag Villasis, Pangasinan

PAMPANGA
WILCON DEPOT
MEXICO
Brgy. Lagundi, Mexico, Pampanga
DAU
Mc. Arthur Highway Brgy. Dau Mabalacat, Pampanga
SAN FERNANDO
Freeway St., Olongapo-Gapan Rd., Dolores, San Fernando City, Pampanga

BULACAN
WILCON DEPOT
Km. 48 DRT Highway, Brgy. Tarcan, Baliuag, Bulacan

RIZAL
WILCON DEPOT
TAYTAY
Manila East Road, Brgy. San Juan, Taytay Rizal
ANTIPOLO
Marcos Hi-way, Mayamot, Antipolo City

METRO MANILA
QUEZON CITY
WILCON DEPOT
BALINTAWAK
#1274 EDSA Balintawak, Quezon City
LIBIS
#90 E. Rodriguez Jr. Ave., Ugong Norte Murphy, Libis, Quezon City
QUIRINO
L119 C1 Mindanao Avenue, Brgy. Talipapa, Quezon City
FAIRVIEW
#16 Commonwealth Ave., Brgy. Commonwealth, Quezon City
QUEZON AVENUE
#24 Quezon Ave. Doña Josefa, D4, Quezon City

VALENZUELA CITY
WILCON DEPOT
VALENZUELA
#292 McArthur Hiway, Dalandanan, Valenzuela City

WILCON HOME ESSENTIALS
MUÑOZ
#1066 EDSA Bahay Toro, Quezon City
MINDANAO AVE.
L5 B7 Mindanao Avenue, Bahay Toro, Quezon City
STA. MESA
#425 Piña Avenue Zone 057, Barangay 585, Sampaloc, Manila
ALIMALL
Lower Ground Floor Alimall, Araneta Center, Quezon City
CITY CENTER
Anchor 1 121 Visayas Ave., Brgy. Bahay Toro, Quezon City

ALABANG
WILCON DEPOT
ALABANG
#8003 Real St., Alabang Zapote Rd, Almanza I Las Piñas City
FILINVEST
B29 Alabang Zapote Rd., cor. Bridgeway Ave., Filinvest Corporate City, Muntinlupa City

MAKATI
WILCON DEPOT
PASONG TAMO
#2212 Chino Roces Ave. San Lorenzo Makati City (beside Cityland Tower)
IT HUB
#2251 IT Hub, Pasong Tamo Ext., Brgy. Bangkal, Makati City

PARAÑAQUE
WILCON DEPOT
SUCAT
Dr. A. Santos Ave., Brgy. San Dionisio, Sucat, Parañaque City

PASAY
WILCON HOME ESSENTIALS
PASAY
#16 C. Jose St., corner EDSA Malibay, Pasay City

CAVITE
WILCON DEPOT
DASMARIÑAS
Governor's Drive, Brgy. Paliparan, Dasmariñas City, Norte
KAWIT
Centennial Road, Brgy. Magdalo Potol, Kawit, Cavite
BACOOR
Bacoor Blvd, Barangay Mambog IV, Bacoor City, Cavite

LAGUNA
WILCON DEPOT
CALAMBA
National Road, Brgy. Halang, Calamba City, Laguna
SAN PABLO CITY
Doña Maria Village Phase II Brgy. Bagong Bayan, San Pablo City
STA. ROSA
Tagaytay Rd. Brgy Pulong, Sta. Cruz, Sta. Rosa, Laguna

BATANGAS
WILCON DEPOT
Diversion Road Brgy. Alangilan, Batangas

AGUSAN DEL NORTE
WILCON DEPOT
BUTUAN CITY
Baan Kilometer 3 Brgy. Ampayon, Butuan City, Agusan del Norte

CEBU
WILCON DEPOT
MANDAUE CITY
UN Ave., Brgy. Umapad, Mandaue City, Cebu
TALISAY CITY
Lot 2359, Lawa-an II, Talisay City, Cebu

DAVAO
WILCON DEPOT
L2 B1 Mc. Arthur Highway Bo., Matina, Davao City

Timeline

1977

- Opened its **first** branch in Quezon Avenue
- Opened **three** more branches around Metro Manila

2002

- Opened its first branch in **Mindanao** (Davao)

2003

- Opened in Las Piñas, Alabang, its **first depot** format store with a size of 10,000 sqm

2004

- Opened the **largest** Wilcon Depot store in **Balintawak** with an area of over 30,000 sqm

WILCON BUILDER'S SUPPLY, INC.

BUILDERS' DEPOT
The Leading One-Stop Construction Shop

BUILDER'S WILCON SUPPLY

BUILDERS' WILCON DEPOT

2009

- Began operating a small-format store under **"Wilcon Home Essentials"**
- Major rebranding and evolution of the **Wilcon logo and brand**

2012

- Began its **corporate restructuring** to promote operational efficiencies
- Opened its first branch in the **Visayas** Region (Cebu)

2015

- Incorporated **Wilcon Depot, Inc.**

2017

IPO

- Publicly listed in the Philippine Stock Exchange in [March 2017]

Mission

To help people build, improve, and refine their homes for a sustainable and comfortable life.

Vision

Our vision is to become the preferred company in our industry for all our key stakeholders: our customers, our partners our employees, our shareholders and the society we live in.

To deserve the trust and respect our key stakeholders place in us, we at Wilcon differenciate ourselves by the standard of excellence and commitment we adhere to.

For our customers, we are committed to delivering products and solutions of superior quality and providing excellent and reliable service.

For our partners, we are committed to nurturing a winning network of suppliers in order to create mutual and enduring value.

For our employees, we are committed to create an environment that respects their dignity as persons, cultivates knowledge and talent, and empowers them to be the best they can be through continuous career and development opportunities.

For our Shareholders, we are committed to maximize long - term returns to shareholders that can enable growth and prosperity in the business, and in turn, provide more opportunities for our employees and more solutions to our customers.

For the society we live in, we are committed to contributing the best expertise, knowledge, skills, and resources to promote stronger, safer and more sustainable homes and buildings for all kinds of people.

FOUNDER'S MESSAGE

Building Big Ideas. This was what I envisioned for Wilcon, when I started the business forty years ago. A business and an organization that is every homeowner's and homebuilder's partner in building their big ideas.

We have had a number of milestones in our history. I started the business as a 60-square meter hardware store selling a variety of local brands of tiles, plumbing and sanitary wares, electrical and lighting products, and hardware and tools. After a period of measured growth in the 1980s to the 1990s, the new millennium marked a turning point for us. We expanded our store network outside Metro Manila, we built our first and steadily grew the number of our depot-format, one-stop-shop concept stores and developed our own house brands across major categories. We evolved from the traditional hardware store into modern retail trade, transforming our stores to become what they are today – customer-focused, with product choices that have meaningful depth and breadth and peopled by customer experts who offer quality solutions to help every homeowner and homebuilder realize their dream homes and projects.

A few years ago, I, with our senior management and the whole organization, made a commitment to strengthen the leadership position of Wilcon in the home improvement and construction supplies retail space. Toward this end, we have to professionalize our business, continually improve our systems and processes and more importantly deliver the Wilcon brand of customer service that is consistently responsive to customers' needs day in and day out. And to give us one big push in ensuring Wilcon's sustainability across generations, we brought Wilcon's retail business public through an initial public offering on March 31, 2017. So here we are today, 37-store strong, resolute, poised to face the challenges ahead of us and excited to have you, our shareholders, as our support in growing Wilcon into a nationally recognized brand that is every homeowner's dependable partner in building and improving their homes.

We remain optimistic on the Philippine economy and the retail sector. The increased government spending with particular focus on infrastructure will surely create compounding benefits to the economy and stimulate growth throughout the country. Against this backdrop, we hope Wilcon will continue to prosper and sustain its growth trajectory in the coming years.

I would like to thank every employee who has contributed to the success of Wilcon. We would not have made it here today without your dedication and loyalty. To our Board of Directors and our dear shareholders, thank you for your support and trust in us. We hope you will remain with us as we continue to build more and bigger ideas.

PRESIDENT'S MESSAGE

We, at Wilcon, are committed to realize our Founder's vision to be partners of our stakeholders in building big ideas. Our founder, Mr. William T. Belo, through hard work and an innate ability to spot and translate consumer preferences into profitable endeavors, grew Wilcon from that 60-square meter hardware store and under several corporate vehicles, to what is now the country's leading home improvement and construction supplies retail chain. Hence, when we felt the time was right to cement his legacy, among other significant reasons, we embarked on a strategic path that would ensure Wilcon's sustainable growth in the years ahead – to take the business public.

It was in December 2015, when we incorporated Wilcon Depot, Inc., to operate the home improvement and construction supplies retail business of the parent company, Wilcon Corporation. The retail business was then transferred from the parent to Wilcon Depot on April 1, 2016 and we finally listed Wilcon Depot in the Philippine Stock Exchange on March 31, 2017.

2016 was thus both a first and last for Wilcon Depot. It was our first year of operations as a separate entity from the parent and the last year prior to being a public Company. Amidst the countless tasks we undertook in preparation for the initial public offering, not least among them the transfer of the retail business and the re-organization of our board of directors and management team, we were able to achieve strong results of our performance for the year.

We generated net sales of P12.3 billion for the year ended December 31, 2016. This represented net sales from April 1, 2016, the start of commercial operations. Sales from the depots still made up the bulk of the total, accounting for 96.7% or P11.9 billion, while sales generated by the home essentials format stores comprised the remaining 3.3% or P402 million. During the year, the Company opened two new stores, both depot-formats, in Bacoor, Cavite in April and Sta. Rosa, Laguna in September. Both areas have seen remarkable growth in real estate development for industrial, commercial and residential purposes.

These new stores contributed 2.7% of the total sales for the year and are expected to account for more of the Company's revenues in the future given the demographics of their locations.

Meanwhile, gross profit margin reached 26.8% for a gross profit of P3.3 billion while operating expenses accounted for 18.6% of sales for a total of P2.3 billion. Consequently, your Company did not only have a solid first year sales performance but it finished the year strong with net income reaching P887 million for a net profit margin of 7.2%, which resulted from the combined effects of the robust sales, intelligent sourcing and prudent spending.

Our balance sheet generally represented the trading assets and liabilities transferred from the parent company on April 1, 2016 and by the end of 2016, reflected additionally the results of our performance for the year. Total assets reached P9.1 billion, 71.9% of which comprised of merchandise inventories; total liabilities tallied P5.6 billion with bank debts accounting for 24.7% while trade and other payables accounted for 65.1%; and finally stockholders' equity reached P3.6 billion to include retained earnings of P886 million. Current ratio was at a healthy 1.9x and debt to equity ratio ended at 1.6x.

All major capital expenditures in 2016 were undertaken by the parent company and approximately 91% of the proceeds from the initial public offering of the Company is allocated for the store network expansion. Hence, starting in 2017, except for those stores that were already in various stages of construction prior to listing, construction of all depot-format store buildings will be funded by Wilcon Depot, Inc.

Our very encouraging 2016 results provided a steadfast springboard for us to confidently build a bigger and better Wilcon at a much faster rate than we've ever done before. As the outlook for the economy remains healthy in general with rising disposable income, stable interest rates, increased infrastructure spending that is expected to spur and support more development and the consistently strong remittances from OFWs, we look forward to expanding into new markets and introducing the Wilcon brand of quality products and customer service to attain our growth targets and maintain our leadership in our space.

For all these and the future growth and success we will achieve, I am grateful for the dedication and hard work of the management and staff of Wilcon. They have truly carried Wilcon to become where it is today and I am looking forward to continue working with them to bring Wilcon more success. To our board of directors for the guidance and the insights, thank you. And to you our new shareholders, thank you for your belief in us and rest assured we will work tirelessly to deliver value for your investment.

2016
Store Openings

Bacoor Branch

Sta. Rosa Branch

BOARD OF DIRECTORS

William T. Belo
FOUNDER

Bertram B. Lim
CHAIRMAN

Ricardo S. Pascua
INDEPENDENT DIRECTOR

Rolando S. Narciso
INDEPENDENT DIRECTOR

Delfin L. Warren
INDEPENDENT DIRECTOR

Lorraine Belo-Cincochan
DIRECTOR/ PRESIDENT & CEO

Mark Andrew Y. Belo
DIRECTOR/ CFO

Careen Y. Belo
DIRECTOR/ CPO

SENIOR MANAGEMENT

Lorraine Belo-Cincochan
DIRECTOR/PRESIDENT & CEO

Mark Andrew Y. Belo
DIRECTOR/ CFO

Careen Y. Belo
DIRECTOR/ CPO

Rosemarie B. Ong
SEVP-COO

Sheila P. Pasicolan
CORPORATE SECRETARY

Eden M. Godino
VP-PRODUCT DEVELOPMENT

Grace A. Tiong
VP-HUMAN RESOURCES

Michael D. Tiong
VP-GLOBAL SOURCING

FINANCIAL HIGHLIGHTS

For the year (IN PHP MILLIONS)	December 31, 2016 (One Year)	December 31, 2015 (One Month)
Net Sales	12,298	
Gross Profit	3,299	
EBITDA	1,108	-1
Net Income	**887**	-1
Total Assets	9,144	50
Total Liabilities	5,561	1
Total Stockholders' Equity	3,582	49
Basic Earnings per share	0.43	0.01
Book Value per share	1.32	0.99

For the year (IN PHP MILLIONS)	March 31, 2017 (Three Months)
Net Sales	4,182
Gross Profit	1,262
EBITDA	476
Net Income	**391**
Total Assets	15,924
Total Liabilities	5,183
Total Stockholders' Equity	10,741
Basic Earnings per share	0.14
Book Value per share	2.62

AUDITED FINANCIAL REPORT

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
WILCON DEPOT, INC.
Doing Business under the Name and Style of
WILCON DEPOT and WILCON HOME ESSENTIALS
No. 90 E. Rodriguez Jr. Avenue
Brgy. Ugong Norte, Quezon City

Opinion

We have audited the accompanying financial statements of WILCON DEPOT, INC. Doing Business under the Name and Style of WILCON DEPOT and WILCON HOME ESSENTIALS (the Company and formerly Wilcon Depot, Inc.), a subsidiary of WILCON CORPORATION Doing Business under the Name and Style of WILCON CITY CENTER, which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2016 and one-month period ended December 31, 2015, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the year ended December 31, 2016 and one-month period ended December 31, 2015, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A (Annual Report) and Annual Report distributed to stockholders for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report distributed to stockholders for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

Other Matter

The Company was registered with the Securities and Exchange Commission on December 17, 2015 and started commercial operations on April 1, 2016.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 0663-AR-2 Group A
Valid until April 14, 2017
BIR Accreditation No. 08-005144-6-2017
Valid until January 13, 2020
PTR No. 5908527
Issued January 3, 2017, Makati City

April 12, 2017
Makati City, Metro Manila

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)

STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2016 AND 2015

	Note	2016	2015
ASSETS			
Current Assets			
Cash	5	**₱638,072,093**	₱50,000,000
Trade and other receivables	6	**422,593,586**	–
Merchandise inventories	7	**6,575,843,901**	–
Other current assets	8	**769,937,004**	–
Total Current Assets		**8,406,446,584**	50,000,000
Noncurrent Assets			
Property and equipment	9	**341,897,899**	–
Deferred tax assets	19	**184,261,772**	227,253
Other noncurrent assets	10	**210,984,752**	–
Total Noncurrent Assets		**737,144,423**	227,253
		₱9,143,591,007	₱50,227,253
LIABILITIES AND EQUITY			
Current Liabilities			
Short-term debt	11	**₱445,000,000**	₱–
Current portion of long-term debt	12	**278,461,539**	–
Trade and other payables	13	**3,619,679,500**	757,510
Income tax payable		**154,094,765**	–
Total Current Liabilities		**4,497,235,804**	757,510
Noncurrent Liabilities			
Long-term debt - net of current portion	12	**649,358,974**	–
Retirement liability	14	**414,571,587**	–
Total Noncurrent Liabilities		**1,063,930,561**	–
Total Liabilities		**5,561,166,365**	757,510
Equity			
Capital stock	15	**2,705,817,916**	50,000,000
Other comprehensive loss	14	**(9,640,325)**	–
Retained earnings (deficit)		**886,247,051**	(530,257)
Total Equity		**3,582,424,642**	49,469,743
		₱9,143,591,007	₱50,227,253

See accompanying Notes to 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)

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016 AND
FOR THE ONE-MONTH PERIOD ENDED DECEMBER 31, 2015*

	Note	**2016 (One Year)**	2015 (One Month)
NET SALES		**₱12,298,415,794**	₱–
COST OF SALES	16	**(8,999,485,092)**	–
GROSS INCOME		**3,298,930,702**	–
OPERATING EXPENSES	17	**(2,286,996,656)**	(757,510)
INTEREST EXPENSE	12	**(30,239,828)**	–
OTHER INCOME - Net	18	**33,663,092**	–
INCOME (LOSS) BEFORE INCOME TAX		**1,015,357,310**	(757,510)
INCOME TAX EXPENSE (BENEFIT)	19		
Current		**308,482,953**	–
Deferred		**(179,902,951)**	(227,253)
		128,580,002	(227,253)
NET INCOME (LOSS)		**886,777,308**	(530,257)
OTHER COMPREHENSIVE LOSS			
Item not to be reclassified to profit or loss			
Remeasurement loss on retirement liability, net of deferred income tax	14	**(9,640,325)**	–
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱877,136,983**	(₱530,257)
BASIC AND DILUTIVE EARNINGS (LOSS) PER SHARE	22	**₱0.43**	(₱0.01)

See accompanying Notes to Financial Statements.

* The Company was registered with the Securities and Exchange Commission on December 17, 2015 and started commercial operations on April 1, 2016.

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STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016 AND
FOR THE ONE-MONTH PERIOD ENDED DECEMBER 31, 2015*

	Note	**2016 (One Year)**	2015 (One Month)
CAPITAL STOCK	15		
Balance at beginning of period		**₱50,000,000**	₱50,000,000
Issuance of shares		**2,655,817,916**	–
Balance at end of period		**2,705,817,916**	50,000,000
OTHER COMPREHENSIVE LOSS	14		
Remeasurement loss on retirement liability, net of deferred income tax		**(9,640,325)**	–
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of period		**(530,257)**	–
Net income (loss)		**886,777,308**	(530,257)
Balance at end of period		**886,247,051**	(530,257)
		₱3,582,424,642	₱49,469,743

See accompanying Notes to Financial Statements.

* The Company was registered with the Securities and Exchange Commission on December 17, 2015 and started commercial operations on April 1, 2016.

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STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016 AND FOR THE ONE-MONTH PERIOD ENDED DECEMBER 31, 2015*

	Note	2016 (One Year)	2015 (One Month)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax		₱1,015,357,310	(₱757,510)
Adjustments for:			
Depreciation and amortization	9	62,714,607	–
Provision for inventory write down and losses	7	51,594,828	–
Interest expense	12	30,239,828	–
Retirement benefits	14	29,745,363	–
Reversal of allowance for impairment losses on receivables	6	(10,894,782)	–
Interest income	5	(668,432)	–
Operating income (loss) before working capital changes		1,178,088,722	(757,510)
Decrease (increase) in:			
Trade and other receivables		(34,571,955)	–
Merchandise inventories		586,640,880	–
Other current assets		(755,726,076)	–
Increase in trade and other payables		157,027,599	757,510
Net cash generated from operations		1,131,459,170	–
Income tax paid		(154,388,188)	–
Interest received		668,432	–
Net cash provided by operating activities		977,739,414	–
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other noncurrent assets		(151,026,332)	–
Additions to:			
Property and equipment	9	(64,796,579)	–
Computer software	10	(10,985,329)	–
Cash used in investing activities		(226,808,240)	–

(Forward)

	Note	**2016 (One Year)**	2015 (One month)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash transferred from Parent Company	4	**₱199,731,283**	₱–
Payments of:			
Long-term debt		**(173,846,153)**	–
Interest		**(30,239,828)**	–
Net payments of short-term debt		**(158,504,383)**	–
Proceeds from subscriptions of capital stock	15	**–**	50,000,000
Net cash provided by (used in) financing activities		**(162,859,081)**	50,000,000
NET INCREASE IN CASH		**588,072,093**	50,000,000
CASH AT BEGINNING OF YEAR		**50,000,000**	–
CASH AT END OF YEAR	5	**₱638,072,093**	₱50,000,000
NONCASH INVESTING ACTIVITY			
Net assets transferred from Parent Company in exchange for shares of stock of the Company, net of cash transferred of ₱199,731,283	4	**₱2,456,086,633**	₱–

See accompanying Notes to Financial Statements.

* The Company was registered with the Securities and Exchange Commission on December 17, 2015 and started commercial operations on April 1, 2016.

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

NOTES TO FINANCIAL STATEMENTS

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 Notes 4 and 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.

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.

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

<u>**Approval of the Financial Statements**</u>
The financial statements of the Company as at and for the periods ended December 31, 2016 and 2015 were approved and authorized for issue by the BOD on April 12, 2017, as reviewed and recommended for approval by the Audit Committee on the same date.

2. **Summary of Significant Accounting Policies**

Basis of Preparation and Statement of Compliance

The 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 financial statements have been consistently applied to all the years presented, unless other wise stated.

Measurement Bases

The 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 financial statements of the Company have been prepared on the historical cost basis of accounting. 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 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 24, Fair Value of Financial Instruments

Adoption of New and Amended PFRS
The Company adopted the following new and amended PFRS effective January 1, 2016 as summarized below.

- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation,* and PAS 38*, Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. However, presumptions can be rebutted in certain limited circumstances.

- Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – The amendment clarifies that in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where the liabilities arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bond in the relevant currency should be used.

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

New and Amended PFRS Not Yet Adopted
Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual period 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 their financing activities.

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.

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.

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. Additional disclosures will be included in the financial statements, as applicable.

The Company anticipates that the application of PFRS 9 and PFRS 16 might have a significant effect on amounts reported in respect of the Company’s financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

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 instruments classified as financial assets or liabilities at FVPL, HTM investments and AFS financial assets as at December 31, 2016 and 2015.

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, trade and other receivables, 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.

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) 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.

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, container deposits, and prepaid expenses.

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 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 input 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 period are classified as current assets. Otherwise, these are classified as noncurrent assets.

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:

Asset Type	Number of Years
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.

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 and computer software.

Equity

Capital Stock. Capital stock is measured at par value for all shares issued. Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction from proceeds, net of tax.

Retained Earnings (Deficit). Retained earnings (deficit) represent the cumulative balance of net income or loss.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises items of income and expense (including items previously presented under the statement of changes in equity) that are not recognized in profit or loss for the period. Other comprehensive loss pertains to 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 carryforward 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 (Loss) per Share

The Company presents basic and diluted earnings (loss) per share. Basic earnings (loss) per share is calculated by dividing the net income by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is 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 financial statements when material. Events after the reporting date that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements requires the Company to exercise judgment, make estimates and use assumptions that affect the amounts reported in the 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 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 ₱502.1 million in 2016 (see Note 20).

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 ₱5.8 million in 2016 (see Note 20).

Estimates and Assumptions

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

Estimating Impairment Losses on Trade and Other Receivables (including 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 ₱422.6 million as at December 31, 2016 (see Note 6). Allowance for impairment losses on receivables amounted to ₱45.8 million as at December 31, 2016 (see Note 6).

As at December 31, 2016, refundable cash bonds amounting to ₱83.4 million have been assessed as unrecoverable (see Note 10). Accordingly, allowance for impairment losses amounted to ₱83.4 million as at December 31, 2016 and 2015.

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 ₱6,575.8 million as at December 31, 2016 (see Note 7). Allowance for inventory write down and losses amounted to ₱101.7 million as at December 31, 2016 (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 years 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.

The carrying value of property and equipment and computer software as at December 31, 2016 follows:

	Note	
Property and equipment	9	₱341,897,899
Computer software	10	10,555,309
		₱352,453,208

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 are 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 belongs.

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

The carrying values of nonfinancial assets as at December 31, 2016 assessed for possible impairment are presented below.

	Note	
Property and equipment	9	₱341,897,899
Computer software	10	10,555,309
		₱352,453,208

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 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 years.

Retirement liability amounted to ₱414.6 million as at December 31, 2016 (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 ₱184.3 million and ₱227,253 as at December 31, 2016 and 2015, respectively (see Note 19).

4. Transfer of the Trading Business from the Parent Company

As discussed in Note 1, the Parent Company transferred its Trading Business, including the related assets and liabilities, to the Company in exchange for the shares of stock, effective April 1, 2016.

Details of the assets and liabilities transferred to the Company are as follows:

	Note	
Cash	5	₱199,731,283
Trade and other receivables	6	377,126,849
Merchandise inventories	7	7,214,079,609
Other current assets	8	14,210,928
Property and equipment	9	339,385,907
Other noncurrent assets	10	49,403,111
Short-term debt	11	(603,504,383)
Long-term debt	12	(1,101,666,666)
Trade and other payables	13	(3,461,894,391)
Retirement liability	14	(371,054,331)
Net assets transferred		₱2,655,817,916

The transfer of net assets in exchange for shares of stock of the Company was approved by the SEC on November 15, 2016 (see Notes 1 and 15). Consequently, the Parent Company received 2,655.8 million shares of stock of the Company.

The transfer of net assets in exchange for shares of stock of the Company was acquired pursuant to Section 40(c) of the Tax Code, as amended.

5. Cash

This account consists of:

	2016	2015
Cash on hand	**₱6,329,849**	₱–
Cash in banks	**631,742,244**	50,000,000
	₱638,072,093	₱50,000,000

On April 1, 2016, the Parent Company transferred to the Company cash amounting to ₱199.7 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

Cash in banks earn interest at prevailing deposit rates. Interest income amounted to ₱668,432 in 2016 (see Note 18).

6. Trade and Other Receivables

Details of this account as at December 31, 2016 are as follows:

	Note	
Trade:		
Third parties		₱337,631,279
Related parties	21	100,146,597
Rental	20	15,137,938
Advances to suppliers		13,796,318
Others		1,715,832
		468,427,964
Allowance for impairment losses		(45,834,378)
		₱422,593,586

On April 1, 2016, the Parent Company transferred to the Company trade and other receivables amounting to ₱377.1 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

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

Rental receivables, which are collectible within one year, include receivables from the lease of gondola lightings, facade billboards, window displays and street banners (see Note 20).

Advances to suppliers pertain to advance payments on purchases of goods for trading which will be refunded or applied against billings.

Movements of allowance for impairment losses on receivables as at December 31, 2016 are as follows:

	Note	
Transferred from Parent Company		₱56,729,160
Reversal	17	(51,324,964)
Provision	17	40,430,182
Balance at end of year		₱45,834,378

7. Merchandise Inventories

Details of this account as at December 31, 2016 are as follows:

At cost	₱6,459,355,675
At net realizable value	116,488,226
	₱6,575,843,901

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

On April 1, 2016, the Parent Company transferred to the Company merchandise inventories amounting to ₱7,214.1 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

The cost of merchandise inventories stated at net realizable value amounted to ₱218.2 million as at December 31, 2016.

Movements of allowance for inventory write down and losses as at December 31, 2016 are as follows:

Transferred from Parent Company	₱50,056,597
Provision	51,594,828
Balance at end of year	₱101,651,425

In 2016, inventories charged to cost of sales amounted to ₱8,999.5 million (see Note 16).

8. Other Current Assets

Details of this account as at December 31, 2016 are as follows:

Input VAT	₱629,154,525
Current portion of deferred input VAT	124,614,030
Container deposits	9,034,191
Prepaid expenses	7,134,258
	₱769,937,004

On April 1, 2016, the Parent Company transferred to the Company other current assets amounting to ₱14.2 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

Deferred input VAT pertains to the current unamortized portion of input VAT on furniture and equipment and transportation equipment and input VAT on consigned goods already sold, wherein the suppliers' invoices are received subsequently.

Container deposits pertain to the refundable charges for the use of cargo containers for importations of goods. Container deposits will be refunded upon return of the empty containers to the shipping companies.

9. Property and Equipment

Details and movements of this account as at December 31, 2016 are as follows:

	Note	Leasehold Improvements	Furniture and Equipment	Transportation Equipment	Construction in Progress	Total
Cost						
Transferred from Parent Company	4	₱31,211,210	₱198,805,682	₱–	₱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
Depreciation and amortization for the period and balance at end of period		9,430,748	52,463,387	390,452	–	62,284,587
Net book value		₱134,152,512	₱202,558,875	₱5,186,512	₱–	₱341,897,899

On April 1, 2016, the Parent Company transferred to the Company property and equipment with a net book value of ₱339.4 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

The depreciation and amortization in 2016 are summarized below:

	Note	
Property and equipment		₱62,284,587
Computer software	10	430,020
	17	₱62,714,607

10. Other Noncurrent Assets

Details of this account as at December 31, 2016 are as follows:

	Note	
Security and rental deposits	20	₱161,334,786
Noncurrent deferred input VAT		22,292,311
Electricity deposits		16,802,346
Computer software		10,555,309
Refundable cash bonds, net of allowance for impairment losses of ₱83.4 million		–
		₱210,984,752

On April 1, 2016, the Parent Company transferred to the Company other noncurrent assets, which mainly pertain to security, rental and electricity deposits on various leases and service agreements, aggregating to ₱49.4 million, pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

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 December 31, 2016, advance rentals to various lessors amounted to ₱64.8 million.

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 December 31, 2016, the refund of cash bonds is still pending with the BOC. Refundable cash bonds, net of allowance for impairment, are part of the net assets transferred by the Parent Company (see Notes 1 and 4).

Details of computer software, which pertains to payroll software, follow:

	Note	
Addition for the year and balance at end of year		₱10,985,329
Amortization for the year and balance at end of year	9	(430,020)
		₱10,555,309

11. Short-term Debt

On April 1, 2016, the Parent Company assigned to the Company short-term debt amounting to ₱603.5 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

Short-term loans amounting to ₱445.0 million as at December 31, 2016 bear interest, which are being repriced monthly, ranging from 2.5% to 2.625% in 2016.

Interest expense amounted to ₱10.1 million in 2016 (see Note 12).

12. Long-term Debt

Details of long-term debt as at December 31, 2016 are as follows:

	Terms	Principal	Outstanding Balance
Loan 1	Quarterly installment payment until December 2019	₱500,000,000	₱300,000,000
Loan 2	Quarterly installment payment until March 2020	320,000,000	280,000,000
Loan 3	Monthly installment payment until August 2021	210,000,000	150,769,231
Loan 4	Monthly installment payment until August 2021	170,000,000	122,051,282
Loan 5	Monthly installment payment until March 2018	100,000,000	75,000,000
		₱1,300,000,000	927,820,513
Current portion			(278,461,539)
Noncurrent portion			₱649,358,974

On April 1, 2016, the Parent Company assigned to the Company long-term debt amounting to ₱1,101.7 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

The loans bear 2.5% interest in 2016.

Interest expense in 2016 is summarized below:

	Note	
Long-term debt		₱20,169,546
Short-term debt	11	10,070,282
		₱30,239,828

As at 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 as at December 31, 2016 are as follows:

Less than one year	₱278,461,539
Between one to two years	516,923,077
Between two to five years	132,435,897
	₱927,820,513

13. Trade and Other Payables

Details of this account as at December 31, 2016 are as follows:

	Note	
Trade:		
Third parties		₱2,307,558,266
Related parties	21	901,164,379
Accrued expenses:		
Utilities	21	62,536,306
Rent	20	42,680,810
Trucking services		16,237,760
Others		38,184,017
Advances from customers		151,970,218
Nontrade		39,524,714
Others		59,823,030
		₱3,619,679,500

As at December 31, 2015, accrued expenses, which pertain to accrual of taxes and professional fees, amounted to ₱757,510.

On April 1, 2016, the Parent Company assigned to the Company trade and other payables amounting to ₱3,461.9 million pursuant to the transfer of its Trading Business to the Company (see Notes 1 and 4).

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

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

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

Accrued expenses refer to accruals for utilities, trucking services, postage and telecommunications, outside services, salaries and wages and other expenses incurred which are payable in the succeeding month.

Others pertain to unearned revenue on loyalty program, unredeemed gift certificates, 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.

Pursuant to the transfer of the Trading Business to the Company, effective April 1, 2016, the Parent Company transferred most of its employees to the Company (see Note 1). Accordingly, retirement benefits accruing to these employees were transferred to the Company amounting to ₱371.1 million (see Note 4).

Retirement benefits, which pertain to the current service cost amounted to ₱29.7 million in 2016.

The changes in the present value of the defined benefit obligation as at December 31, 2016 are as follows:

	Note	
Transferred from Parent Company	4	₱371,054,331
Retirement benefits		29,745,363
Remeasurement loss		13,771,893
Balance at end of year		₱414,571,587

The remeasurement loss recognized in other comprehensive loss in 2016 follows:

	Cumulative Remeasurement Loss	Deferred Tax (see Note 19)	Net
Remeasurement loss for the year and balance at end of year	(₱13,771,893)	₱4,131,568	(₱9,640,325)

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

Discount rate	4.65%
Annual salary increase rate	8.00%

Sensitivity analysis on retirement liability for 2016 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 December 31, 2016, the expected future benefits payments are as follow:

Year	Amount
2017	₱15,600,000
2018	7,344,000
2019	–
2020	382,395
2021	4,109,643
2022 to 2026	38,623,444
	₱66,059,482

15. **Equity**

Details of capital stock are as follow:

	2016		2015	
	Number of Shares	**Amount**	Number of Shares	Amount
Authorized - at ₱1 a share				
Balance at beginning of period	**200,000,000**	**₱200,000,000**	–	₱–
Increase	**4,800,000,000**	**4,800,000,000**	200,000,000	200,000,000
Balance at end of period	**5,000,000,000**	**₱5,000,000,000**	200,000,000	₱200,000,000
Issued and outstanding:				
Balance at beginning of period	**50,000,000**	**₱50,000,000**	–	₱–
Issuances	**2,655,817,916**	**2,655,817,916**	50,000,000	50,000,000
Balance at end of period	**2,705,817,916**	**₱2,705,817,916**	50,000,000	₱50,000,000

On April 1, 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 Notes 1 and 4).

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 Notes 1 and 4).

16. Cost of Sales

Details of cost of sales in 2016 are as follows:

	Note	
Inventories transferred	4	₱7,214,079,609
Net purchases		8,361,249,384
Goods available for sale		15,575,328,993
Merchandise inventories at end of period	7	(6,575,843,901)
		₱8,999,485,092

17. Operating Expenses

This account consists of:

	Note	**2016 (One Year)**	2015 (One Month)
Salaries, wages and employees' benefits		**₱506,252,125**	₱–
Rent	20	**502,084,363**	–
Outsourced services		**310,848,721**	–
Utilities		**258,233,463**	–
Trucking services		**192,066,482**	–
Taxes and licenses		**115,227,877**	707,510
Credit card charges		**99,176,655**	–
Security services		**84,358,542**	–
Depreciation and amortization	9	**62,714,607**	–
Advertising and promotions		**42,734,794**	–
Supplies		**35,583,411**	–
Repairs and maintenance		**33,054,848**	–
Postage, telephone and telegraph		**17,971,279**	–
Reversal of allowance for impairment losses on receivables	6	**(10,894,782)**	–
Fuel and oil		**8,061,465**	–
Transportation and travel		**6,642,676**	–
Donations and contributions		**5,604,997**	–
Professional fees		**5,573,013**	50,000
Others		**11,702,120**	–
		₱2,286,996,656	₱757,510

18. Other Income

Other income in 2016 is consists of:

	Note	
Rent	20	₱5,768,648
Interest	5	668,432
Others - net		27,226,012
		₱33,663,092

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 and other reimbursable costs.

19. Income Tax

The current income tax expense in 2016 amounting to ₱308.5 million represents regular corporate income tax. There is no current income tax expense in 2015 because the Company is in a taxable loss position.

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 (benefit) at statutory tax rate and income tax expense (benefit) presented in the statements of comprehensive income is as follows:

	2016 (One Year)	2015 (One Month)
Income tax expense (benefit) at statutory rate	**₱304,607,193**	(₱227,253)
Income tax effects of:		
Effect of net assets transferred	**(174,032,434)**	–
Stock transaction costs	**(1,876,945)**	–
Interest income already subjected to final tax	**(200,530)**	–
Nondeductible expenses	**82,718**	–
	₱128,580,002	(₱227,253)

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

	2016	2015
Deferred tax assets:		
Retirement liability	**₱124,371,476**	₱–
Allowance for inventory write down and losses	**30,495,428**	–
Allowance for impairment of refundable cash bonds	**25,022,980**	–
Allowance for impairment losses on receivables	**13,750,313**	–
Unearned revenue from loyalty program	**8,227,996**	–
Accrued rent on straight-line basis	**1,822,779**	–
NOLCO	**–**	227,253
	203,690,972	227,253
Deferred tax liability -		
Advance rentals	**(19,429,200)**	–
	₱184,261,772	₱227,253

NOLCO incurred in 2015 amounting to ₱757,510 was applied in 2016.

The presentation of net deferred tax assets are as follows:

	Note	2016	2015
Through profit or loss		**₱180,130,204**	₱227,253
Through other comprehensive income	14	**4,131,568**	–
		₱184,261,772	₱227,253

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 pertains to refundable deposit and advance rentals, amounted to ₱161.3 million as at December 31, 2016 (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 December 31, 2016 amounted to ₱42.7 million (see Note 13).

Rent expense amounted to ₱502.1 million in 2016 (see Note 17).

Future minimum rental payments under operating lease as at December 31, 2016 are as follows:

Within one year	₱636,895,911
After one year but not more than five years	1,473,625,700
More than five years	113,199,816
	₱2,223,721,427

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 ₱5.8 million in 2016 (see Note 18). Rental receivables amounted to ₱15.1 million as at December 31, 2016 (see Note 6).

21. Related Party Transactions and Balances

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

Related Party	Nature of Transactions	Transactions during the Period	Trade Receivables (see Note 6)	Trade Payables (see Note 13)	Accrued Expenses (see Note 13)
Parent Company	Transfer of trading business	₱2,655,817,916	₱–	₱748,555,638	₱–
	Noninterest-bearing advances	599,471,322	–	–	–
	Rental expenses	323,178,971	–	–	31,740,971
	Purchases of goods	50,604,575	–	37,169,225	–
	Reimbursement of expenses	250,276,813	–	–	62,536,306
	Sale of goods	4,420,288	1,499,537	–	–
Entities under Common Control*	Purchases of goods	1,414,492,237	–	115,439,516	–
	Trucking services	112,592,100	–	–	–
	Rental expenses	55,072,026	–	–	–
	Sale of goods	26,337,166	98,647,060	–	–
Stockholder	Rental expenses	10,939,839	–	–	10,939,839
			₱100,146,597	₱901,164,379	₱105,217,116

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

No related party transactions in 2015 and no outstanding balances with related parties as at December 31, 2015.

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.

<u>Compensation of Key Management Personnel</u>

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

Short-term employee benefits	₱28,963,361
Retirement benefits	52,756,009
	₱81,719,370

22. Earnings (Loss) per Share

Basic and dilutive earnings (loss) per share were computed as follows:

	2016	2015
Net income (loss)	**₱886,777,308**	(₱530,257)
Divided by the weighted average number of outstanding shares	**2,041,863,437**	50,000,000
	₱0.43	(₱0.01)

23. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist of cash, trade receivables and payables (excluding statutory liabilities, unredeemed gift certificates and unearned revenue), 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 ar e 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.

With respect to credit risk arising from the cash in banks and trade and other receivables, exposure to credit risk arises from the default of the counter party, with a maximum exposure equal to the gross amount of these instruments as follows:

	2016	2015
Cash in banks	**₱631,742,244**	₱50,000,000
Trade and other receivables	**468,427,964**	–
Container deposits	**9,034,191**	–
Security and rental deposits*	**96,570,786**	–
Electricity deposits	**16,802,346**	–
Refundable cash bonds	**83,409,934**	–
	₱1,305,987,465	₱50,000,000

** Excluding advance rentals amounting to ₱64.8 million.*

The Company does not have major concentration of credit risk.

The table below summarizes the Company's financial assets as at December 31, 2016 based on aging:

	Neither Past Due Nor Impaired	Past Due but not Impaired		Past Due and Impaired	Total
		Less than One Year	One Year and Over		
Cash	₱638,072,093	₱–	₱–	₱–	₱638,072,093
Trade and other receivables	127,622,141	191,623,004	103,348,441	45,834,378	468,427,964
Container deposits	9,034,191	–	–	–	9,034,191
Security and rental deposits*	96,570,786	–	–	–	96,570,786
Electricity deposits	16,802,346	–	–	–	16,802,346
Refundable cash bonds	–	–	–	83,409,934	83,409,934
	₱888,101,557	₱191,623,004	₱103,348,441	₱129,244,312	₱1,312,317,314

** Excluding advance rentals amounting to ₱64.8 million.*

As at December 31, 2015, cash in bank amounting to ₱50.0 million is neither past due nor impaired. "Past due but not impaired" are items with history of frequent defaults, nevertheless, the amounts are still collectible.

The table below shows the credit quality of the Company's financial assets as at December 31, 2016 that are neither past due nor impaired based on their historical experience with the counter parties.

	High Grade	Standard Grade	Substandard Grade	Total
Cash	₱638,072,093	₱–	₱–	₱638,072,093
Trade and other receivables	–	127,622,141	–	127,622,141
Container deposits	–	–	9,034,191	9,034,191
Security and rental deposits*	–	96,570,786	–	96,570,786
Electricity deposits	–	16,802,346	–	16,802,346
	₱638,072,093	₱240,995,273	₱9,034,191	₱888,101,557

** Excluding advance rentals amounting to ₱64.8 million.*

As at December 31, 2015, cash in banks amounting to ₱50.0 million is categorized under high grade.

High grade receivables pertain to those receivables from counter parties that consistently pay before the maturity date. Standard grade includes receivables that are collected on their due dates even without an effort from the Company to follow them up while receivables which are collected on their due dates provided that the Company made a persistent effort to collect them are included under substandard grade receivables.

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.

The table below summarizes the maturity profile of the Company's financial liabilities as at December 31, 2016 based on contractual undiscounted payments.

	On Demand	Within Three Months	More than Three Months to One Year	More than One Year but less than Five Years	Total
Short-term debt	₱–	₱445,000,000	₱–	₱–	₱445,000,000
Trade and other payables*	–	–	3,559,856,470	–	3,559,856,470
Long-term debt	20,000,000	64,615,385	193,846,154	649,358,974	927,820,513
	₱20,000,000	₱509,615,385	₱3,753,702,624	₱649,358,974	₱4,932,676,983

** Excluding statutory liabilities, unredeemed gift certificates and unearned revenue aggregating to ₱59.8 million.*

As at December 31, 2015, trade and other payables amounting to ₱707,510 were due within three months.

As at December 31, 2016 and 2015, the Company had at its disposal cash amounting ₱638.1 million and ₱50.0 million, respectively. The Company's holding of cash, together with net cash flows from operations and financing, are expected to be sufficient to cover the payments due for its financial liabilities and the cost of all firm orders due in the next financial year.

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.

The following table demonstrates the sensitivity of income before income tax due to a reasonably possible change in interest rate, with all other variables held constant.

	Increase (Decrease) in Rate	Increase (Decrease) in Amount
December 31, 2016	0.30%	(₱106,519)
	(0.30%)	106,519

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.

Total equity includes capital stock, other comprehensive loss and retained earnings (deficit). The debt-to-equity ratio as at December 31 is as follows:

	2016	2015
Total debt	**₱5,561,166,365**	₱757,510
Total equity	**3,582,424,642**	49,469,743
Debt-to-equity	**1.55:1**	0.02:1

24. Fair Value of Financial Instruments

The table below presents a comparison by category of carrying amounts and fair values of the financial instruments as at December 31, 2016:

	Carrying Amount	Fair Value
Financial Assets		
Cash	₱638,072,093	₱638,072,093
Trade and other receivables	422,593,586	422,593,586
Container deposits	9,034,191	9,034,191
Security and rental deposits*	96,570,786	85,685,553
Electricity deposits	16,802,346	16,802,346
	₱1,183,073,002	₱1,172,187,769
Financial Liabilities		
Short-term debt	₱445,000,000	₱445,000,000
Trade and other payables**	3,559,856,470	3,559,856,470
Long-term debt	927,820,513	927,820,513
	₱4,932,676,983	₱4,932,676,983

* *Excluding advance rentals amounting to ₱64.8 million.*
** *Excluding statutory liabilities, unredeemed gift certificates and unearned revenue aggregating to ₱59.8 million.*

As at December 31, 2015, the carrying amount of cash in bank and accrued expenses, amounting to ₱50.0 million and ₱757,510, respectively, approximate their values.

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

Cash, trade and other receivables, due from Parent Company, container, security, rental and electricity deposits, refundable cash bonds , short-term debt and trade and other payables. The carrying amounts of cash, trade and other receivables, due from a related party, container deposits, short-term borrowings, 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.

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

CORPORATE GOVERNANCE MANUAL

(REVISED)

WILCON DEPOT, INC.
Revised Manual on Corporate Governance

WILCON DEPOT, INC. (the Company) understands that it is paramount to set the kind of corporate governance needed in the attainment of the Company's corporate goals.

The **Corporate Governance Manual** (the Manual) was designed to define the framework of rules, systems and processes that governs the performance of the Board of Directors (the Board) and Management. It establishes the structure by which the Company executes and carries out its Corporate Governance. This serves as reference by all the members of the Board as well as its Management in the conduct of their duties and responsibilities.

The Board of Directors (the "Board") and Management, employees and shareholders, believe that good governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness thereof within the organization.

II. DEFINITION OF TERMS

a. Corporate Governance - the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.

Corporate governance is a system is a system of direction, feedback and control using regulations, performance standards and ethical guidelines to hold the Board and Senior Management accountable for ensuring ethical behavior-reconciling long-term customer satisfaction with shareholder value-to the benefit of all stakeholders and society.

Its purpose is to maximize the organization's long-term success, creating sustainable value for its shareholders, stakeholders and the nation.

b. Board of Director - the governing body elected by the stockholders that exercise the corporate powers of the Corporation, conducts all its business and controls its properties.

c. Exchange - An organized market place of facility that brings together buyers and sellers, and executes trades of securities and/or commodities.

d. Management - a group of executives given the authority by the Board of Directors to implement the policies it has laid down in the conduct of the business of the corporation.

e. Independent Director - a person who is independent of Management and the controlling shareholders, and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

f. Executive Director - a director who has executive responsibility of day-to-day operations of a part of the whole of the organization.

g. Non-Executive Director - A director who has no executive responsibility and does not perform any work related to the operations of the corporation.

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h. Non-Audit Work - the other services offered by an external auditor to the Corporation that are not directly related and relevant to its statutory audit functions, such as, accounting, payroll, bookkeeping, reconciliation, computer project management, data processing, or information technology outsourcing services, internal audit, and other services that may compromise the independence and objectivity of an external auditor.

i. Internal Control - a process designed and effected by the Board of Directors, Senior Management, and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations; reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, and the organization 's policies and procedures.

j. Internal Audit - an independent and objective assurance activity designed to add value to and improve the Corporation's operations, and help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes.

k. Internal Audit Department - a department of the Corporation that provides independent and objective assurance services in order to add value to and improve the Corporation's operations.

l. Enterprise Risk Management - a process, affected by an entity's Board of Directors, Management and other personnel, applied in strategy setting and across the enterprise that is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives.

m. Related Party - shall cover the Company's subsidiaries, as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities), that the Company exerts direct or indirect control; officer; shareholders and related interest (DOSRI), and their close family member, as well as corresponding persons in affiliated companies. This shall also include such other person or juridical entity whose interest may pose a potential conflict with the interest of the Company.

n. Related Party Transactions - a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. It shall be interpreted broadly to include not only transactions that are entered into with an unrelated parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

o. Stakeholder - any individual, organization or society at large who can either affect and/or be affected by the Company's strategies, policies, business decisions and operations, in general. This includes, among others, customers, creditors, employees, suppliers, investors, as well as the government and community in which it operates.

III. <u>THE BOARD'S GOVERNANCE RESPONSIBILITIES</u>

WILCON DEPOT, INC.
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A. Establishing a Competent Board

Compliance with the principles of good corporate governance shall start with the Board. It is the Board's responsibility to foster the long-term success of the Corporation, and to sustain its competitiveness and profitability in a manner consistent with its corporate objective and the best interests of its stockholders and other stakeholders. To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders, the Board shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions, and responsibilities. Its Board charter shall be publicly available and posted on the Company website.

B. Composition

The Board shall be composed of seven (7) directors who shall be elected by the Corporation's stockholders annually, and shall hold office for one (1) year and until their successors are elected and qualified in accordance with the Corporation's By-Laws. The Board shall be composed of directors with collective working knowledge, experience or expertise that is relevant to the Company's industry or sector. The Board shall always ensure that it has an appropriate mix of competence and expertise and that its members remain qualified for their positions individually and collectively, to enable it to fulfill its roles and responsibilities and respond to the needs of the organization based on the evolving business environment and strategic direction.

The Board shall be composed of a majority of non-executive directors who possess the necessary qualifications to effectively participate and help secure objective, independent judgment on corporate affairs and to substantiate proper checks and balances.

C. Training

The Corporation shall provide a comprehensive 8-hour orientation program for new directors and an annual 4-hour continuing training for existing directors, including an understanding of the contributions that the director is expected to make, an explanation of the Board and its committees, and an explanation of the Corporation's business, including corporate governance and other matters that will assist them in discharging their duties.

The Corporation shall also provide general access to training courses to its directors as a matter of continuous professional education as well as to maintain and enhance their skills as directors, and keep them updated in their knowledge and understanding of the Corporation's business.

D. Board Diversity

A diverse Board better understands its customer base and the environment that the business operates in. This promotes different perspectives and ideas and mitigates groupthink to achieve optimal decision-making. Board diversity may refer to distinctions in age, ethnicity, culture, skills, competence, knowledge, gender, among other things.

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The Company is committed to the following principles:

a. Recognizes and embraces the benefits of having s diverse Board and sees increasing diversity at Board level as an essential element in the attainment of its strategic objectives and maintaining a prudent corporate governance.

b. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge, and candidates will be considered against objective criteria, which the Board as a whole requires to be effective.

E. Corporate Secretary

The Board id assisted by the Corporate Secretary, who is an officer of the Corporation and separate from the Compliance Officer. The Corporate Secretary shall not be a member of the Board of Directors and shall annually attend a training on corporate governance. He is primarily responsible to the Corporation and its shareholders, and not to the Chairman or President of the Company. His loyalty to the mission, vision and specific business objectives of the corporate entity come with his duties.

Considering the varied functions and duties, the Corporate Secretary must possess administrative and interpersonal skills, and if not the general counsel, must have some legal skills. He must also have some financial and accounting skills, working knowledge of the operations of the Corporations, and shall be a Filipino citizen.

The Corporate Secretary shall have the following duties and responsibilities:

a. Assist the Board and the Board Committees in the conduct of their meetings, including preparing an annual schedule of Board and Committee meetings and the annual board calendar and assisting the Chairs of the Board and its Committees to set agendas for those meetings;

b. Safe and preserves the integrity of the minutes of the meetings of the Board and its Committees as well as other official records of the Corporation;

c. Keeps abreast on relevant laws, regulations, all governance issuances, relevant industry developments and operations of the Corporation, and advises the Board and Chairman on all relevant issues as they arise;

d. Works fairly and objectively with the Board, Management and stockholders and contributes to the flow of information between the Board and Management, the Board and its Committees, and the Board and its stakeholders, including shareholders;

e. Advises on the establishment of Board Committees and their terms of reference;

f. Informs members of the Board, in accordance with the by-laws, of the agenda of their meetings at least five working days in advance, and ensures that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval;

g. Attends all Board meetings, except when justifiable causes, such as illness, death in the immediate family and serious accidents, prevent him from doing so;

h. Performs required administrative functions;

i. Oversees the drafting of the by-laws and ensures that they conform with regulatory requirements; and

j. Performs such other duties and responsibilities as may be provided by the SEC.

F. Compliance Officer

To ensure adherence to corporate principles and best practices, the Board shall designate a Compliance Officer who shall hold the position of at least a Senior Vice President or its equivalent. He shall have direct reporting responsibilities to the Chairman of the Board. The Compliance Officer shall not be a member of the Board of Directors and shall annually attend a training on corporate governance. He is primarily liable to the Corporation and its shareholders, and not to the Chairman or President of the Company.

The appointment of the Compliance Officer shall be immediately disclosed to the Commission on SEC Form 17-C. All correspondence relative to his functions as such, shall be addressed to the said Officer.

The Compliance Officer is a member of the company's management team in charge of the compliance function.

The Compliance Officer shall have the following duties and responsibilities:

a. Ensures proper onboarding of new directors (i.e., orientation on the Company's business, charter, articles of incorporation and by-laws, among others);

b. Monitors, reviews, evaluates and ensures the compliance by the Corporation, its officers and directors with the relevant laws, this Manual, rules and regulations and all governance issuances of regulatory agencies;

c. Reports the matter to the Board if violations are found and recommends the imposition of appropriate disciplinary action;

d. Ensures the integrity and accuracy of all documentary submissions to regulators;

e. Appears before the SEC when summoned in relation to compliance with this Manual;

f. Collaborates with other departments to properly address compliance issues, which may be subject to investigation;

g. Identifies possible areas of compliance issues and works towards the resolution of the same;

h. Ensures the attendance of Board members and key officers to relevant trainings; and

i. Performs such other duties and responsibilities as may be provided by the SEC.

IV. ESTABLISHING CLEAR ROLES AND RESPONSIBILITIES OF THE BOARD

A. The Board

The fiduciary roles, responsibilities and accountabilities of the Board as provided under the law, the Company's articles and by-laws, and other legal pronouncements and guidelines shall be clearly made known to all directors as well as to shareholders and other stakeholders. This should be headed by a competent and qualified Chairman.

The Board shall oversee the development of and approve the Company's business objective and strategy, and monitor their implementation, in order to sustain the Company's long term viability and strength

The Board Members shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the company and all shareholders. To ensure a high standard of best practice for the Corporation, its stockholders and other stakeholders.

The Board shall have, among others, the following duties and responsibilities:

a. The Board shall responsible for ensuring and adopting an effective succession planning program for directors, key officers and management to ensure growth and a continued increase in the shareholders' value. This shall include adopting a policy on the retirement age of directors and key officer.

b. The Board shall align the remuneration of key officers and Board members with the long-term interests of the Company. In doing so, it shall formulate and adopt a policy specifying the relationship between remuneration and performance. Further, no director shall participate in discussions or deliberations involving his own remuneration.

c. The Board shall disclose in this Manual a formal and transparent board nomination and election policy that shall include how it accepts nominations from minority shareholders and reviews nominated candidates. This policy shall also include an assessment of the effectiveness of the Board's processes and procedures in the nomination, election, or replacement of a director. In addition, its process of identifying the quality of directors shall be aligned with the strategic direction of the Company.

d. The Board shall have the overall responsibility in ensuring that there is a group-wide policy and system governing related party transactions (RPTs) and other unusual or infrequently occurring transactions, particularly those which pass certain thresholds of materiality. The policy shall include the appropriate review and approval of material or significant RPTs, which guarantee fairness and transparency of the transactions.

e. The Board shall be primarily responsible for approving the selection and assessing the performance of the Management led by the Chief Executive Officer (CEO), and control functions led by their respective heads (Chief Risk Officer, Chief Compliance Officer, and Chief Audit Executive).

f. The board shall establish an effective performance management framework that will ensure that the Management, including the Chief Executive Officer, and personnel's performance is at par with the standards set by the Board and Senior Management.

g. The Board shall oversee that an appropriate internal control system is in place, including setting up a mechanism for monitoring and managing potential conflicts of interest of Management, board members, and shareholders. The Board shall also approved the Internal Audit Charter.

h. The Board shall oversee that a sound enterprise risk management (ERM) framework is in place to effective identify, assess and manage key business risks. The risk management framework shall guide the Board in identifying units/business lines and enterprise-level risk exposure, as well as the effectiveness of risk management strategies.

i. The Board shall have a Board Charter that formalizes and clearly states its roles, responsibilities and accountabilities in carrying out its fiduciary duties. The Board Charter shall serve as a guide to the directors in the performance of their functions and shall be publicly available and posted on the Company website

j. Other duties and responsibilities as may be assigned by the SEC.

B. Chairman of the Board

The Board shall be headed by a competent and qualified Chairman. The roles and responsibilities of the Chairman include, among others, the following:

a. Ensures that the meetings of the Board are held in accordance with the Corporation's By-Laws;

b. Makes certain that the meeting agenda focuses on strategic matters, including the overall risk appetite of the Corporation, considering the developments in the business and regulatory environments, key governance concerns, and contentious issues that will significantly affect operations;

c. Guarantees that the Board receives accurate, timely, relevant, insightful, concise and clear information to enable it to make sound decisions;

d. Facilitates discussion on key issues by fostering an environment conducive for constructive debate and leveraging on the skills and and expertise of individual directors;

e. Ensures that the Board sufficiently challenges and inquires on reports submitted and representations made by Management;

f. Assures the availability of proper orientation for first-time directions and continuing training opportunities for all directors;

g. Makes sure that performance of the Board is evaluated at least once a year and discussed/followed up on; and

h. Maintains qualitative and timely lines of communication and information between the Board and Management.

The roles of the Chairman and the President shall be separate to ensure an appropriate balance of power, increased accountability, and greater capacity of the Board for Independent decision making.

C. Nomination and Election of Board of Directors

The Corporate Secretary shall set a reasonable period for the submission of nominations of candidates for election to the Board of Directors. All nominations for directors submitted in writing to the Corporate Secretary within such nomination period shall be valid. A stockholder of record, including a minority stockholder, entitled to notice of and to vote at the regular or special meeting of the stockholders for the election of directors shall be qualified to be nominated as a director.

The Company may engage the services of professional search firms or use other external sources of candidates when searching for candidates to the Board of Directors.

The Corporate Governance Committee meets, pre-screens and checks the qualifications of, and deliberates on all persons nominated to be elected to the Board of Directors from the pool of candidates submitted by the nominating stockholders. The Corporate Governance Committee shall prepare a Final List of Candidates after considering the qualifications and disqualifications set forth in the succeeding sections. Said list shall contain all the information about these nominees. Only nominees qualified by the Corporate Governance Committee and whose names appear on the Final List of Candidates shall be eligible for election as independent Director. No other nomination shall be entertained after the Final List of Candidates shall have been prepared.

Based on the Final List of Candidates, directors are elected by shareholders individually. The vote required for the election of directors is majority of the outstanding capital stock. The election of Directors shall be by ballot and each stockholder entitled to vote may cast the vote to which the number of shares he owns entitles him, for as many persons as there are to be elected as Directors, or he may cumulate or give to one candidates as many votes as the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he may see fit, provided that the whole number of votes cast by him shall not exceed the number of shares owned by him multiplied by the whole number of Directors to be elected.

To preserve the integrity of the election process, the Corporation shall employ the services of an external party to validate the voting results.

D. Qualifications of a Director

A director of the Corporation must possess the following qualifications:

a. Ownership of at least one (1) share of stock of the Corporation;

b. At least twenty-one (21) years of age.

c. At least a college graduate or have sufficient experience managing the business to substitute for such formal education;

d. Proven to possess integrity, probity and assiduousness;

e. Proven to possess the appropriate level of skill and experience in line with the strategic plans and goals of the Corporation; and

f. which may be provided by the Board, such as practical understanding of the Corporation's business, previous business experience, or membership in good standing in relevant industry, business or professional organization.

E. Permanent Disqualification

The following may considered as grounds for the permanent disqualification of a director:

a. Any person convicted by final judgment or order by a competent judicial or administrative body of crime that: (a) involves the purchase or sale of securities as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arise out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;

b. Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the SEC, Bangko Sentral ng Pilipinas (BSP) or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuity any conduct or practice in any of the capacities mentioned in sub-paragraph (a) and (b) above or willfully violating the laws that govern securities and banking activities.

The disqualification shall also apply if (a) such person is the subject of an order of the SEC, BSP or any court or administrative body denying, revoking or suspending any registration. License or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by SEC or BSP, or under any rule or regulation issued by the Commission or BSP; (b) such person has otherwise been restrained to engage in any activity involving securities and banking; or (c) such person is the subject of an effective order of an effective order of a self-regulatory organization suspending or expelling him from membership, participation or association with a member or participant of the organization.

c. Any person convicted by final judgment or order by a court, or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;

d. Any person who has been adjudged by final judgment or order of the SEC, BSP, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counselled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law, rule, regulation or order administered by the SEC or BSP;

e. Any person judicially declared as insolvent;

f. Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of acts, violations or misconduct similar to any of the acts, violations or misconduct enumerated previously;

g. Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of is election or appointment;

h. No person shall qualify or be eligible for nomination or election to the board if he is engaged in any business which competes with or is antagonistic to that of the Corporation. Without limiting the generality of the foregoing, a person shall be deemed to be so engaged:

i. If he is the owner (either of record or as beneficial owner) of 5% or more of any outstanding class of share of, any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is engaged in the business directly competitive to that of the Corporation or any of its subsidiaries or affiliates;

g. If he is an officer, manager, or controlling person of, or the owner or any member of his immediate family is the owner (either of record or as beneficial owner) of 5%

or more of any outstanding class of shares of any corporation (other than one in which the Corporation owns at least 20% of the capital stock) which is an adverse party in any suit, action or proceeding (of whatever nature, whether civil, criminal, administrative, or judicial) by or against the Corporation, which has been actually filed or threatened, imminent or probably, to be filed;

h. If he determined by the Board, in the exercise of its judgment in good faith, to be the nominee, officer, trustee, adviser or legal counsel, of any individual set forth in (i) or (ii) hereof; and

i. Other grounds as the SEC may provide.

F. Temporary Disqualification

In addition, the following may be grounds for temporary disqualification of incumbent directors:

a. Absence in more than fifty percent (50%) of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election;

b. Dismissal or termination for cause as director of any publicly-listed company, public company, registered issuer of securities and holder of a secondary license from the Commission. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination;

c. If the beneficial equity ownership of an independent director in the corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification from being elected as an independent director is lifted if the limit is later complied with; and

d. If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.

Temporary disqualification shall be at the discretion of the Board and shall require a resolution of the majority of the Board. A director shall have sixty (60) days upon occurrence of any ground for temporary disqualification to remedy or correct the same otherwise, the disqualification hall become permanent.

G. Meetings of the Board

Members of the Board shall attend regular and special meetings of the Board in person or via teleconference or videoconference or by any other technological means allowed by the Commission.

The Board may, to promote transparency, require the presence of at least one (1) independent director in all of its meetings. However, the absence of an independent director shall not affect the quorum requirements if he is duly notified of the meeting but notwithstanding such notice fails to attend.

The Board of Directors shall meet at least quarterly. Board meetings shall be scheduled in advance before the start of the year.

. Items to be discussed during the board meeting shall be made available to each director at least seven (7) days in advance, In emergency circumstance, however, the meeting may be called at a shorter notice.

H. Compensation of Directors

Directors shall not receive any compensation unless approved by the stockholders or provided in the Corporation's By-Laws. No director shall participate in the approval of his compensation. However, the Board my, from time to time, approve a reasonable per diem that a director may receive for attendance in Board and Board Committee meetings.

V. ESTABLISHING BOARD COMMITTEES

To address specific tasks and responsibilities and ensure optimal performance of the Board, the Board shall adopt seven (7) committees, namely the Executive Committee, the Corporate Governance Committee, the Audit Committee, the Board Risk Oversight Committee, Related Party Transactions Committee, Nomination Committee and the Compensation Committee. The members of the Committees shall be appointed by the Board annually.

All established committees shall be required to have Committee Charters stating in plain terms their respective purposes, memberships, structures, operations, reporting processes, resources and other relevant information. The Charters shall provide the standards for evaluating the performance of the Committees. Committee Charters shall be publicly available and posted on the Company website.

A. The Executive Committee

The Executive Committee shall be composed of five (5) members of which the Chairman of the Board shall act as ex-officio Chairman, and the President shall act as ex-officio Vice Chairman, and three (3) other members to be elected/designated by the Board.

The Executive Committee's primary purpose is to function when the Board is not in session. The Committee shall have all the power and authority of the Board in the governance, management and direction of the business and affairs of the Company except for those matters expressly provided for in Section 35 of the Corporation Code, the Company's By-Laws and other pertinent laws, rules or regulations.

The Executive Committee shall have the following duties and responsibilities:

a. Assist the Board in overseeing the implementation of strategies and sustaining the Corporation's long-term success and competitiveness in a manner consistent with its mission/vision;

b. Review of major issues facing the organization;

c. Review and approve Company-wide credit sales strategy, profile and performance.

d. Monitoring of the operating activities of each business group;

e. Defining and monitoring the Company's performance improvement goals;

f. Defining group-wide policies and actions and overseeing their implementation;

g. Fostering the sharing of information in all areas of the business group;

h. Performs other duties and responsibilities as the Committee may deem appropriate within the scope of its primary functions or as may be assigned by the Board; and

i. Other duties and responsibilities are provided in the Executive Committee Charter.

An act of the Executive Committee which is within the scope of its power shall not require ratification or approval for its validity and effectivity. All actions of the Executive Committee shall be reported to the Board at the meeting thereof following such action and shall be subject to revision or alteration by the Board.

B. The Audit Committee

The Audit Committee's primary function is to enhance the Board's oversight capability over the Company's financial reporting, internal control system, internal and external audit processes and compliance with applicable laws and regulations. It shall be composed of at least three (3) appropriately qualified non-executive members of the Board, the majority of whom, including the Chairman of the Board, shall be independent. The Chairman shall not be the Chairman of the Board and of other Board Committees. Each member shall have adequate understanding at least competence at most of the Corporation's financial management systems and environment particularly, in the areas of accounting, audit and finance. In accordance with this, the members of the Committee may be removed or replaced, and any vacancies in the Committee shall be filled by the Board.

The Audit Committee shall have the following duties and responsibilities:

a. Recommends the approval of the Internal Audit Charter (IA Charter), which formally defines the role of Internal Audit and the audit plane as well as oversees the implementation of the IA Charter;

b. Through the Internal Audit (IA) Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, integrity of financial reporting, and security of physical and information assets. Well-designed internal control procedures and processes that will provide a s system of checks and balances shall be in place in order to (a) safeguard the Company's resources and ensure their effective utilization, (b) prevent occurrence of fraud and other irregularities, (c) protect the accuracy and reliability of the Company's financial data, and (d) ensure compliance with applicable laws and regulations;

c. Oversees the Internal Audit Department, and recommends the appointment and/or grounds for approval of an Internal Audit head or Chief Audit Executive (CAE). The Audit Committee shall also approve the terms and conditions for outsourcing internal audit services;

d. Establishes and identifies the reporting line of the Internal Auditor to enable him to properly fulfil his duties and responsibilities. For this purpose, he shall directly report to the Audit Committee;

e. Reviews and monitors Management's responsiveness to the Internal Auditor's findings and recommendations;

f. Ensures there is an established process on the appointment, reappointment, removal, and fees of the External Auditor;

g. Prior to the commencement of the audit, discusses with the External Auditor the nature, scope and expenses of the audit, and ensures proper coordination if more than one audit firm is involved in the activity to secure proper coverage and minimize duplication of efforts;

h. Evaluates and determines the non-audit work, if any, of the External Auditor, and periodically reviews the non-audit fees paid to the External Auditor in relation to the total fees paid to him and to the Corporation's overall consultancy expenses. The Committee shall disallow any non-audit work that will conflict with his duties as an External Auditor or may pose a threat to his independence. The non-audit work, if allowed, shall be disclosed in the Corporation's Annual Report and Annual Corporate Governance Report;

i. Reviews and approves the Interim and Annual Financial Statements before their submission to the Board, with particular focus on the following matters;

i. Any change/s in accounting policies and practices

ii. Areas where a significant amount of judgment has been exercised

iii. Significant adjustments resulting from the audit

iv. Going concern assumptions

v. Compliance with accounting standards

vi. Compliance with tax, legal and regulatory requirements

j. Reviews the disposition of the recommendations in the External Auditor's management letter;

k. Performs oversight functions over the Corporation's Internal and External Auditors. It ensures the independence of Internal and External Auditors, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions;

l. Coordinates, monitors and facilitates compliance with laws, rules and regulations;

m. Recommends to the Board the appointment, reappointment, removal and fess of the External Auditor, duly accredited by the Commission, who undertakes an independent audit of the Corporation, and provides an objective assurance on the manner by which the financial statements shall be prepared and presented to the stockholders;

n. Meets with the Board at least every quarter without the presence of the CEO or other Management team members, and periodically meets with CAE;

o. Performs other duties and responsibilities as the Committee may deem appropriate within the scope of its primary functions or as may be assigned by the Board; and

p. Other duties and responsibilities are provided in the Audit Committee Charter.

C. The Corporate Governance Committee

The Corporate Governance Committee shall be composed at least three (3) members, all of whom shall be independent directors, including the Chairman. In accordance with this, the members of the Committee may be removed or replaced, and any vacancies in the Committee shall be filled by the Board. Each members shall have adequate and competent understanding of corporate governance principles and practices, in addition to thorough knowledge of the Company's business and industry in which it operates. The Committee is tasked to assist the Board in the performance of its corporate governance responsibilities, including functions that were formerly assigned to the Nomination and Remuneration Committees.

The Corporate Governance Committee shall have the following duties and responsibilities:

a. Oversees the implementation of the corporate governance framework and periodically reviews the said framework to ensure that it remains appropriate in light of material changes to the Corporation's size, complexity and business strategy, as well as its business and regulatory environments;

b. Oversees the periodic performance evaluation of the Board and its Committees as well as Executive Management, and conducts an annual self-evaluation of its performance;

c. Ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement;

d. Recommends continuing education/training programs for directors, assignment of tasks/projects to Board Committees, succession planning for the Board members and Senior Officer, and remuneration packages for corporate and individual performance;

e. Adopts corporate governance policies and ensures that these are reviewed and updated regularly, and consistently implemented in form and substance;

f. Proposes and plans relevant training for the members of the Board;

g. Determine the nomination and election process for the Company's directors and has the special duty of defining the general profile of Board members that the Company may need and ensuring appropriate knowledge, competencies and expertise that complement the existing skills of the Board;

h. Establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers that is consistent with the Corporation's culture and strategy as well as the business environment in which it operates;

i. performs other duties and responsibilities as the Committee may deem appropriate within scope of its primary functions or as may be assigned by the Board; and

j. Other duties and responsibilities are provided in the Corporate Governance Committee Charter.

D. The Board Risk Oversight Committee

The Board Risk Oversight Committee (BROC) shall be responsible for the oversight of the Company's Enterprise Risk Management system to ensure its functionality and effectiveness. It shall be composed of at least three (3) members, majority of whom shall be independent directors including the Chairman who is not at the same time the Chairman of the Board or of any other Board Committee. In accordance with this, the members of the Committee may be removed or replace, and any vacancies in the Committee shall be filled by the Board. At least one member of the Committee shall have adequate and competent understanding and experience on risk management principles and practices, in addition to thorough knowledge of the Company's Business and industry in which it operates.

The Board Risk Oversight Committee shall have the following duties and responsibilities:

a. Develops a formal enterprise risk management plan which contains the following elements: (a)common language or register of risk, (b) well-defined risk management goals, objectives and oversight, (c) uniform processes of assessing risk and developing strategies to manage prioritized risks, (d) designing and implementing risk management strategies, processes and measures;

b. Oversees the implementation of the enterprise risk management plan through a Management Risk Oversight Committee. The BROC conducts regular discussions on the Company's prioritized and residual risk exposures based on regular risk management reports and assesses how the concerned units or offices are addressing and managing these risk;

c. Evaluates the risk management plan to ensure its continued relevance, comprehensiveness and effectiveness. The BROC revisits defined risk management strategies, look for emerging or changing material exposures, and stays abreast of significant developments that seriously impact the likelihood of harm or loss;

d. Advise the Board its risk appetite levels and risk tolerance limits;

e. Reviews at least annually the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, the regulatory framework, the external economic and business environment, and when major events occur that are considered to have major impacts on the Company;

f. Assesses the probability of each identified risk becoming a reality and estimates its possible significant financial impact and likelihood of occurrence. Priority areas of concern are those risks that are the most likely to occur and to impact the performance and stability of the Corporation and its stakeholders;

g. Provides oversight over Management's activities in managing credit, market, liquidity, operational, legal and other risk exposures of the Corporation. This function includes regularly receiving information on risk exposures and risk management activities from Management;

h. Reports to the Board on the regular basis, or as deemed necessary, the Company's materials risk exposures, the actions taken to reduce the risks, and recommends further action or plans, as necessary; and

i. Performs other duties and responsibilities as the Committee may deem appropriate within the scope of its primary functions or as may be assigned by the Board.

j. Other duties and responsibilities are provided in the Board Risk Oversight Committee Charter.

E. The Related Party Transactions Committee

The Related Party Transactions Committee shall have the primary function of reviewing all material related party transactions (RPT). It shall be composed of at least three (3) non-executive directors, the majority of whom, including the Chairman, shall be independent. In accordance with this, the members of the Committee may be removed or replaced, and any vacancies in the Committee shall be filled by the Board. Each member shall have adequate and competent knowledge of the Company's business and industry in which it operates.

The Related Party Transactions Committee shall have the following duties and responsibilities:

a. Evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships shall be reflected in the relevant reports to the Board and regulators/supervisor;

b. Evaluates all material RPTs to ensure that these are not undertaken on more favorable economic term (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporates or business resources of the Company are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTs. The Committee takes into account, among others, the following:

i. The related party's relationship to the Company and interest in the transaction;

ii. The material facts of the proposed RPT, including the proposed aggregate value of such transaction;

iii. The benefits to the corporation of the proposed RPT;

iv. The availability of other sources of comparable products or services; and

v. An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances. The Company shall have an effective price discovery system in place and exercise due diligence in determining a fair price for RPTs;

c. Ensures that appropriate disclosure is made, and/or information is to provide to regulating and supervising authorities relating to the Company's RPT exposure, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies, d conflicts that could arise as a result of the Company's affiliation or transactions with other related parties;

d. Reports to the Board of Directors on a regular basis, the status and aggregate exposures to each related party.

e. Ensures that transactions with related parties, including write-off exposures are subject to a periodic independent review or audit process;

f. Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reports RPTs, including a periodic review of RPT policies and procedures;

g. Performs other duties and responsibilities as the Committee may deem appropriate within the scope of its primary functions or as may be assigned by the Board; and

h. Other duties and responsibilities are provided in the Related Party Transactions Committee Charter.

Related party transactions are generally allowed, provided, that these are done in a sound and prudent manner. The Company is expected to exercise appropriate oversight and to implement effective system in managing these transactions.

All related party transactions which are considered usual course of business as stated in the Related Party Transactions policy, regardless of amount, which are substantially the same terms as those prevailing at the time for comparable products or services with unrelated parties are exempted from review of the Related Party Transactions Committee. However, all RPTs which are not in the usual course of business which are equal or greater than the materiality threshold of Php 100 Million, shall be subject for review by the Related Party Transactions Committee. The RPT Committee may, at any time ask for a review of any of the transactions. The Board of Directors reviews and approves all material RPTs endorsed by the Related Party Transactions Committee. All Board-approved material RPTs may be subject to ratification by vote of the majority of the minority shareholders.

F. Nomination Committee

The Nomination Committee shall assist the Board in fulfilling its corporate governance and compliance responsibilities. The Committee shall be composed of at least three members, all of whom should be independent directors, including the Chairman. It shall promulgate the guidelines and criteria to govern the conduct of the nomination. The same shall be properly disclosed. The Nomination Committee shall meet at least two times a year.

The Nomination Committee shall have the following duties and responsibilities:

a. It shall pre-screen the qualifications and prepare a final list of all candidates and put in place screening policies and parameters to enable it to effectively review the qualifications of the nominees for independent directors;

b. Exercise such powers and functions provided for in the Company's By-laws and applicable regulations of the Securities and Exchange Commission; and

c. Other duties and responsibilities are provided in the Nomination Committee Charter.

G. Remuneration and Compensation Committee

The Remuneration Compensation Committee shall be composed of at least three members, all of whom should be independent directors, including the Chairman.

The Compensation Committee shall have the following powers and functions:

a. Ensure that the compensation policies and practices are consistent with the corporate culture, strategy and business environment under which the Company operates

b. Recommend a formal and transparent framework of remuneration and evaluation for the members of the Board and the Company's key executives to enable the directors and officers to run the Company;

c. Evaluate and recommend to the Board incentives and other equity-based plans designed to attract and retain qualified and competent individuals.

d. Exercise such powers and functions provided for in the Company's By-laws and applicable regulations of the Securities and Exchange Commission; and

e. Other duties and responsibilities are provided in the Compensation Committee Charter.

VI. FOSTERING COMMITMENT

To show full commitment to the Company, the directors shall devote the time and attention necessary to properly and effectively perform their duties and responsibilities, including sufficient time to be familiar with the Corporation's business.

The directors shall have the responsibility to attend and actively participate in all meetings of the Board, Committees, and shareholders in person or through tele-/videoconferencing conducted in accordance with the rules and regulations of the Commission, except when justifiable causes, such as, illness, death in the immediate family and serious accidents, prevent them from doing so. In Board and Committee meetings, the director shall review meeting materials and if called for, ask the necessary questions or seek clarifications and explanations.

A. Multiple Board Seats

A director shall exercise due discretion in accepting and holding directorships outside of the Corporation. The director shall notify the Board where he/she is an incumbent before accepting a directorship in another company.

Non-executive and independent directors may hold a maximum of (5) board seats in publicly-listed companies simultaneously. The other executive directors shall submit themselves to a maximum limit of two (2) board seats in corporate Board of other publicly-listed companies. In any case, the capacity of directors to serve with diligence shall not be compromised.

VII. Reinforcing Board Independence

The Board shall endeavor to exercise an objective and independent judgment on all corporate affairs.

The Board shall have at least three independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher.

A. Independent Directors

An independent director of the Corporation must possess all the qualifications and none of the disqualifications of a regular director. He must be independent of Management, substantial shareholdings and material relations, whether it be business or otherwise, which could reasonably be perceived to impede the performance of independent judgment.

An Independent Director refer to a person who ideally:

a. Is not or has not been a senior officer or employee of the covered Company unless there has been a change in the controlling ownership of the Company;

b. Is not, and has not been in the three years immediately preceding the election, a director of the covered Company; a director, officer, employee of the covered Company's subsidiaries, associates, affiliates or related companies; or a director, officer, employee of the covered Company's substantial shareholders and its related companies;

c. Has not been appointed in the covered entity, its subsidiaries, associates, affiliates or related companies as Chairman "Emeritus", "Ex-Officio" Directors/Officers or Members of Members of any Advisory Board, or otherwise appointed in a capacity to assist the Board in the performance of its duties and responsibilities within three years immediately preceding the his election;

d. Is not an Owner of more than two percent (2%) of the outstanding shares of the covered Company, its subsidiaries, associates, affiliates or related companies;

e. Is not a relative of a director, officer, or substantial shareholders of the covered Company, its subsidiaries, associates, affiliates or related companies or of any of its substantial shareholders. For its purpose, relatives include spouse, parent, child, brother, sister and the spouse of such child, brother or sister;

f. Is not acting as a nominee are representative of any director of the covered Company or any of its related companies;

g. Is not a securities broker-dealer of listed companies and registered issuers of securities. "securities broker-dealer" refers to any person holding any office of trust and responsibility in a broker-dealer firm which includes, among others, a director, officer, principal stockholder, nominee of the firm to the Exchange, associated person or salesman, and an authorized clerk of the broker or dealer;

h. Is not retained, either in his personal capacity or through a firm, as professional adviser, auditor, consultant, agent or counsel of the covered Company, any of its related companies or substantial shareholders, or is otherwise independent of Management and free from any business or other relationship within the three years immediately preceding the date of his election;

i. Does not engage or has not engaged, whether by himself or with other persons or through a firm of which he is partner, director or substantial shareholder, in any transaction with the covered Company or any of its related companies or substantial shareholders, other than such transactions that are conducted at arm's length and could not materially interfere with or influence the exercise of his independent judgment;

j. Is not affiliated with any non-profit organization that receives significant funding from the covered Company or any of its related companies or substantial shareholders; and

k. Is not employed as an executive officer of another company where any of the covered Company's executives serve as directors.

Related companies, as used in this section, refer to (a) the covered entity's holding/parent Company; (b) its subsidiaries; and (c) subsidiaries of its holding/parent Company.

If an independent director becomes an officer, consultant, adviser, or employee of the same Corporation, he shall be automatically disqualified from being an independent director. The Board shall *designate a lead director* among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and President are held by one person.

The Board's independent directors shall serve for a maximum cumulative term of nine years. After which, the independent director shall be perpetually barred from re-election as such in the Company, but may continue to qualify for nomination and election as a non-independent director. In the instance that the Company wants to retain an independent director who has served for nine years, the Board shall provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

B. President

The positions of Chairman of the Board and President shall be held by separate individuals and each shall have clearly defined responsibilities.

Minimum internal control mechanisms for Management's operation responsibility shall center on the President, being ultimately accountable for the Corporation's organizational and procedural controls. In addition to the duties imposed on the President by the Board, and those duties and responsibilities provided by the Corporation's By-Laws, the President shall:

a. Determine the Corporation's strategic direction and formulate and implement its strategic plan on the direction of the business;

b. Communicate and implement the Corporation's vision, mission, values and overall strategy and promote any organization or stakeholder change in relation to the same;

c. Oversee the operations of the Corporation and manage human and financial resources in accordance with the strategic plan;

d. Have a good working knowledge of the Corporation's industry and market and keep up-to-date with its core business purpose;

e. Direct, evaluate and guide the work of the key officers of the Corporation;

f. Manage the Corporation's resources prudently and ensure a proper balance of the same;

g. Provide the Board with timely information and interface between the Board and the employees;

h. Build the corporate culture and motivate the employees of the Corporation;

i. Serve as the link between internal operations and external stakeholders;

j. See that all orders and resolutions of the Board are carried into effect;

k. Submit to the Board as soon as possible after the close of each fiscal year, and to the stockholders at the annual meeting, a complete report of the operations of the Corporation for the preceding year, and the state of its affairs;

l. Report to the Board from time to time all matters within his knowledge which in the interest of the Corporation may require to be brought to the Board's notice; and

m. Perform such other responsibilities as the Board may impose.

C. Lead Director

The Board shall designated lead director among the independent directors if the Chairman of the Board is not independent, including if the positions of the Chairman of the Board and President are held by one person. The primary responsibility of the lead independent director is to provide leadership to the independent directors and advise the Board on matters where there may be an actual or perceived conflict of interest.

The functions of the lead director include, among others, the following:

a. Serves as an intermediary between the Chairman and the other directors when necessary;

b. Convenes and chairs meetings of the non-executive directors; and

c. Contributes to the performance evaluation of the Chairman, as required.

A director with a material interest in any transaction affecting the Corporation shall abstain from taking part in the deliberations of the same.

The non-executive directors (NEDs) shall have separate periodic meetings with the external auditor and heads of the internal audit, compliance and risk functions, without any executive directors present to ensure that proper checks and balances are in place within the corporation. The meetings shall be chaired by the lead independent director.

VIII. ASSESSING BOARD PERFORMANCE

The best measure of the Board's effectiveness is through an assessment process. The Board shall regularly carry out evaluations to appraise its performance as a body, and assess whether it possesses the right mix of backgrounds and competencies.

A. Board Evaluation

The Board shall conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment shall be supported by an external facilitator.

The Board shall have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, and committees. This system shall allow for a feedback mechanism from the shareholders. The establishment of such evaluation system, including the features thereof, shall be disclosed in the Corporation's Annual Report or in such form of report that is applicable to the Corporation. The adoption of this performance evaluation system must be covered by a Board approval.

During the evaluation, directors shall be afforded the opportunity to identify areas for improvement in the performance of their duties and responsibilities.

IX. STRENGTHENING BOARD ETHICS

Members of the Board are duty-bound to apply high ethical standards, taking into account the interest of all stakeholders.

The Board shall adopt a Code of Ethics that shall provide standards for professional and ethical behavior, as well as articulate acceptable and unacceptable conduct and practices in internal and external dealings. The Code shall be properly disseminated to the Board, Senior Management and employees. It shall also be disclosed and made available to the public through the Company website.

The Board shall ensure proper and efficient implementation and monitoring of compliance with the Code of Ethics and internal policies. The Company's Code of Ethics shall be made effective and inculcated in the Company's culture through a communication and awareness campaign, continuous training to reinforce the code, strict monitoring and implementation and setting in place proper avenues where issues may be raised and addressed without fear of retribution.

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X. DISCLOSURE AND TRANSPARENCY

Enhancing Company Disclosure and Procedures

The Company shall establish corporate disclosure policies and procedures that are practical and in accordance with best practiced and regulatory expectations.

Corporate disclosure policies and procedures shall be in place to ensure a comprehensive, accurate, reliable and timely report to shareholders and other stakeholders to give a fair and complete picture of the Company's financial condition, results and business operations.

The Company shall have a policy requiring all directors and officers to disclosed/report to the Company any dealings in the Company's shares within three business days.

The Board shall fully disclosed all relevant and material information on individual board members and key executives to evaluate their experience and qualifications, and assess any potential conflicts of interest that might affect their judgment.

A clear disclosure of its policies and procedure shall be in place for setting Board and executive remuneration, as well as the level and mix of the same in the Annual Corporate Governance Report.

Full disclosure of the Company's policies governing Related Party Transactions (RPTs) and other unusual or infrequently occurring transactions shall be required in the Manual on Corporate Governance. The material or significant RPTs reviewed and approved during the year shall be disclosed in its Annual Corporate Governance Report.

A full fair, accurate and timely disclosure shall be made to the public of every materials fact or event that occurs, particularly on the acquisition or disposal of significant assets, which could adversely affect the viability or the interest of its shareholders and other stakeholders. Moreover, the Board of the offeree Company shall appoint an independent party to evaluate the fairness of the transaction price on the acquisition or disposal of assets.

The Board shall therefore commit at all times to full disclosure of material information dealings. It shall cause the filing of all required information through the appropriate Exchange mechanisms for listed companies and submissions to be Commission in the interest of its stockholders and other stakeholders.

XI. STRENGTHENING THE EXTERNAL AUDITOR'S INDEPENDENCE AND IMPROVING AUDIT QUALITY

The Company shall establish standards for the appropriate selection of an external auditor, and exercise effective oversight of the same to strengthen the external auditor's independence and enhance audit quality.

External Auditor

The Audit Committee shall have a robust process for approving and recommending the appointment, reappointment, removal and fees of the external auditor. The appointment, reappointment, removal and fees of the external auditor shall be recommended by the Audit Committee, approved by the Board and ratified by the shareholders. For removal of the external auditor, the reasons for removal or change shall be disclosed to the regulators and the public through the Company website and required disclosures.

The Audit Committee Charter shall include the Audit Committee's responsibility on assessing the integrity and independence of external auditors and exercising effective oversight to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Philippine professional and regulatory requirements. The Charter shall also contain the Audit Committee's responsibility on reviewing and monitoring the external auditor's suitability and effectiveness on an annual basis.

The nature of non-audit services performed by the external auditor shall be disclosed in the Annual Report to deal with any potential conflict of interest. The Audit Committee shall be on alert for any potential conflict of interest situations, given the guidelines or policies on non-audit services, which could be viewed as impairing the external auditor's objectivity.

XII. INCREASING FOCUS ON NON-FINANCIAL AND SUSTAINABILITY REPORTING

The Company shall ensure that the material and reportable non-financial and sustainability issues are disclosed.

There shall be an established policy on the disclosure of material and reportable non-financial and sustainability issues, with emphasis on the management of economic, environmental, social and governance (EESG) issues of the business using a globally recognized standard/framework.

XIII. PROMOTING A COMPREHENSIVE AND COST-EFFICIENT ACCESS TO RELEVANT INFORMATION

The Company shall maintain a comprehensive and cost-efficient communication channel for disseminating relevant information to its shareholders and other investors. This channel is crucial for timely and informed decision-making by investors, stakeholders and other interested users. These shall include, but not limited to, Company website, media and analyst briefings.

XIV. INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

Strengthening the Internal Control System and Enterprise Risk Management Framework

To ensure integrity, transparency and proper governance in the conduct of its affairs, the Company shall have a strong and effective internal control system and enterprise risk management framework.

The Company shall have an adequate and effective internal control system and enterprise risk management framework in the conduct of its business, taking into account its size, risk profile and complexity of its operations.

The Company shall have in place an *independent internal audit* function that provides an independent and objective assurance, and consulting services designed to add value and improve the Company's operations.

A. Internal Audit

The functions of the Internal Audit include, among others, the following:

a. Provides an independent risk-based assurance service to the Board, Audit Committee and Management, focusing on reviewing the effectiveness of the governance and control process in:

(1) promoting the right values and ethics,

(2) ensuring effective performance management and accounting in the organization,

(3) communicating risk and control information, and

(4) coordinating the activities and information among the Board, external and internal auditors, and Management;

b. Performs regulars and special audit as contained in the annual audit plan and/or based on the Company's risk assessment;

c. Performs consulting and advisory services related to governance and control as appropriate for the organization;

d. Performs compliance audit of relevant laws, rules and regulations, contractual obligations and other commitments, which could have a significant impact on the organization;

e. Reviews, audits and assesses the efficiency and effectiveness of the internal control system of all areas of the Company;

f. Evaluates operations or programs to ascertain whether results are consistent with established objectives and goals, and whether the operations or programs are being carried out as planned;

g. Evaluates specific operations at the request of the Board or Management, as appropriate; and

h. Monitors and evaluates governance processes.

B. Chief Audit Executive (CAE)

The Chief Audit Executive (CAE), appointed by the Board, shall oversee and be responsible for the internal audit activity of the organization, including the portion that is outsourced to a third party service provider. In case of a fully outsourced internal audit activity, a qualified independent executive or senior management personnel shall be assigned the responsibility for managing the fully outsourced internal audit activity.

The following are the responsibilities of the CAE, among others:

a. Periodically reviews the Internal Audit Charter and presents it to Senior Management and the Audit Committee for approval;

b. Establishes a risk-based internal audit plan, including policies and procedures, to determine the priorities of the internal audit activity, consistent with the organization's goals;

c. Communicates the internal audit activity's plans, resource requirements and impact of resource limitations, as well as significant interim changes, to Senior Management and the Audit Committee for review and approval;

d. Spearheads the performance of the internal audit activity to ensure it adds value to the organization;

e. Reports periodically to the Audit Committee on the internal audit activity's performance relative to its plan; and

f. Presents findings and recommendations to the Audit Committee and gives advice to Senior Management and the Board on how to improve internal processes.

C. Enterprise Risk Management

The Company shall establish a separate, effective enterprise risk management function to identify, assess and monitor key risk exposures.

The Risk Management function involves the following activities, among others:

a. Defining a risk management strategy;

b. Identifying and analyzing key risk exposures relating to economic, environmental, social and governance (EESG) factors and the achievement of the organization's strategic objective;

c. Evaluating and categorizing each identified risk using the Company's predefined risk categories and parameters;

d. Establishing a risk register with clear define, prioritized and residual risk;

e. Developing a risk mitigation plan for the most important risks to the Company, as defined by the risk management strategy;

f. Communicating and reporting significant risk exposures including business risks (i.e., strategic, compliance, operation, financial and reputation risk), control issues and risk mitigation plan to the Board Risk Oversight Committee; and

g. Monitoring and evaluating the effectiveness of the organization's risk management processes.

D. Chief Risk Officer (CRO)

In managing the Company's Risk Management System, the Company shall have a Chief Risk Officer (CRO), who is the ultimate champion of Enterprise Risk Management (ERM) and has adequate authority, stature, resources and support to fulfill his responsibilities, subject to a company's size, risk profile and complexity of operations. The CRO has the following functions, among others:

a. Supervises the entire ERM process and spearheads the development, implementation, maintenance and continuous improvement of ERM processes and documentation;

b. Communicate the top risks and the status of the implementation of risk management strategies and action plans to the Board Risk Oversight Committee;

c. Collaborates with the President in updating and making recommendations to the Board Risk Oversight Committee;

d. Suggests ERM policies and related guidance, as may be needed; and

e. Provides insight on the following:

i. Risk management processes are performing as intended;

ii. Risk measures reported are continuously reviewed by risk owners for effectiveness; and

iii. Established risk policies and procedures are being complied with.

XV. <u>CULTIVATING A SYNERGIC RELATIONSHIP WITH SHAREHOLDERS</u>

Promoting Shareholder Rights

The Company shall treat all shareholders fairly and equitably, and also recognize, protect and facilitate the exercise of their rights.

It shall be the duty of the directors to promote shareholder rights, remove impediments to the exercise of shareholder rights and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholders' voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in persons. The directors shall pave the way for electronic filing and distribution of shareholder information neccessary to make informed decisions, subject to legal constraints.

In addition to the sending of notices, open communications shall be maintained with stockholders to encourage them to personally attend the stockholders' meeting. If they cannot attend, they shall be apprised ahead of time of their right to appoint a proxy. The Board shall encourage active shareholder participation by sending the Notice of Annual and Special Shareholders' Meeting with sufficient and relevant information at least twenty eight (28) business days before the meeting.

The Board shall encourage active shareholder participation by making the result of the votes taken during the most recent Annual or Special Shareholders' Meeting publicly available the next working day. In addition, the Minutes of the Annual Special Shareholders' Meeting shall be available on the Company website within five (5) business days from the end of the meeting.

The Board shall commit to respect the following rights of the stockholders:

A. Voting Rights

a. Stockholders shall have the right to nominate, elect, remove and replace directors and vote on certain corporate acts in accordance with the Corporation Code.

b. Cumulative voting shall be used in the election of directors.

c. A director shall not be removed without cause if it will deny minority shareholders representation in the Board.

B. Pre-emptive Right

The Articles of Incorporation shall lay down the specific rights and powers of shareholders with respect to the particular shares they hold, all of which shall be protected by law so long as they shall not be in conflict with the Corporation Code.

The articles of incorporation of the Company deny the pre-emptive rights of its shareholders to subscribe to any or all dispositions of any class of shares.

C. Right of Inspection

a. All shareholders shall be provided, upon request, with periodic reports which disclose relevant personal and professional information about the directors and officers and certain other matters, such as their holdings of the Corporation's shares, dealings with the Corporation, relationships among directors and key officers, and the aggregate compensation of directors and officers.

b. The minority shareholders shall be granted the right to propose the holding of a meeting, and the right to propose items in the agenda of the meeting, provided the items are for legitimate business purposes, and in accordance with law, jurisprudence and the best practice.

c. The minority shareholders shall have access to any and all information relating to matters for which the Management is accountable, and to those relating to matters for which the Management shall include such information and, if not included, then the minority shareholders shall be allowed to propose to include such matters in the agenda of stockholders' meeting, being within the definition of "legitimate purpose", and in accordance with law, jurisprudence and best practice.

D. Right to Dividends

a. Shareholders shall have the right to receive dividends subject to the discretion of the Board.

b. The Corporation shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital, except:

i. When justified by definite corporate expansion projects or programs approved by the Board; or

ii. When the Corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or

iii. When it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve for probable contingencies.

E. Appraisal Right

a. The shareholders shall have appraisal right or the right to dissent and demand payment of the fair value of their shares in the manner provided for under Section 82 of the Corporation Code of the Philippines, under any of the following circumstances:

i. In case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholders or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence;

ii. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code; and

iii. In case of merger or consolidation.

iv. Investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

It shall be the duty of the directors to promote shareholder' rights, remove impediments to the exercise of shareholders' right and allow possibilities to seek redress for violation of their rights. They shall encourage the exercise of shareholder's voting rights and the solution of collective action problems through appropriate mechanisms. They shall be instrumental in removing excessive costs and other administrative or practical impediments to shareholders participating in meetings and/or voting in person. The directors shall pave the way for the electronic filing and distribution of shareholder information necessary to make informed decisions subject to legal constraints.

Consideration is given to the need to promote candor through confidentiality of the process, the policy of fostering prompt, economical, and amicable resolution of disputes in accordance with the principles of integrity of determination by the parties, and the policy that the decision-making authority in the process rests with the parties.

13.6. The Company shall establish an Investor Relations Officer (IRO) to facilitate constant engagement with its shareholders. The IRO shall be present at every shareholder's meeting.

XVI. <u>DUTIES TO STAKEHOLDERS</u>

Respecting Rights of Stakeholders and Effective Redress for Violation of Stakeholder's Rights

The rights of stakeholders established by law, by contractual relations and through voluntary commitments must be respected. Where stakeholders' rights and/or interests are at stake, stakeholders shall have the opportunity to obtain prompt effective redness for the violation of their rights.

The Board shall identify the Company's various stakeholders and promote cooperation between them and the Company in creating wealth, growth and sustainability.

The Board shall establish clear policies and programs to provide a mechanism on the fair treatment and protection of stakeholders.

The Board shall adopt a transparent framework and process that allows stakeholders to communicate with the Company and to obtain redress for the violation of their rights.

XVII. <u>ENCOURAGING EMPLOYEES' PARTICIPATION</u>

A mechanism for employee participation shall be developed to create a symbiotic environment, realize the Company's goals and participate in its corporate governance processes.

The Board shall establish policies, programs and procedures that encourage employees to actively participate in the realization of the Company's goals and in its governance. These policies and programs, among others, may be in the areas of health, safety and welfare, training and development, rewards/compensation for employees.

The Board shall set the tone and make a stand against corrupt practices by adopting an anti-corruption policy and program in its Code of Ethics. Further, the Board shall disseminate the policy and program to employees across the organization through trainings to embed them in the Company's culture.

The Board shall establish a suitable framework for whistleblowing that allow employees to freely communicate their concerns about illegal or unethical practices, without fear of retaliation and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns. The Board shall be conscientious in establishing the framework, as well as in supervising and ensuring its enforcement.

XVIII. ENCOURAGING SUSTAINABILITY AND SOCIAL RESPOSIBILITY

The Company shall be socially responsible in all its dealings with the communities where it operates. It shall ensure that its interactions serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.

16.1. The Company shall recognize and place an importance on the interdependence between business and society, and promote a mutually beneficial relationship that allows the Company to grow its business, while contributing to the advancement of the society where it operates.

XIX. MONTORING ASSESSMENT

This Manual shall be available for inspection by any stockholder of the Corporation at reasonable hours on business days. The Chief Compliance Officer shall establish an evaluation system to determine and measure compliance with this Manual and the SEC Revised Code of Corporate Governance.

All directors, officers, division and department heads are tasked to ensure thorough dissemination of this Manual to all employees and related third parties, and to likewise enjoin compliance in the process.

An adequate number of printed copies of this Manual must be reproduced under the supervision of the Corporate Governance Department, with a minimum of at least one (1) hard copy of the Manual per department.

This Manual shall be subject to annual review unless the same frequency is amended by the Board.

If necessary, funds shall be allocated by the Corporation for the purpose of conducting an orientation program or workshop to operationalize this Manual.

XX. PENALTIES FOR NON-COMPLIANCE

All business processes and practices being performed within any department or business unit of the Corporation that are not consistent with any portion of this Manual shall be revoked unless upgraded to be compliant with this Manual.

To strictly observe and implement the provisions of this Manual, the following penalties shall be imposed, after notice and hearing, on the Corporation's directors, officers, staff, subsidiaries, and affiliates and their respective directors, officers, and staff in case of violation of any of the provisions of this Manual

A. For the Company

A fine of not more than Two Hundred Thousand Pesos (P200,000) shall, after due notice and hearing, be imposed by the Securities and Exchange Commission for every year that the Company violates the provisions of the Revised Code of Corporate Governance, without prejudice to other sanctions that the SEC may be authorized to impose under the law, provided, however, that any violation of the Securities and Regulation Code punishable by a specific penalty shall be assessed separately and shall not be covered by the abovementioned fine.

B. For the Concerned Personnel/Unit

The Chief Compliance Officer shall be responsible for determining violation/s of any of the provisions of this Manual, through notice and hearing, and shall recommend to the Chairman of the Board, through the Corporate Governance and Compliance Committee, the imposable penalty for approval.

a. First violation – the subject person shall be reprimanded.

b. Second violation – suspension from office shall be imposed. The duration of the suspension shall depend on the gravity of the violation.

c. Third violation – the maximum penalty of removal from office shall be imposed. With regard to directors, the provision of Section 28 of the Corporation Code shall be observed.

XXI. EFFECTIVITY

The Revised Manual was approved by the Board on 22 May 2017 and shall take effect immediately. It supersedes the previous Manual on Corporation Governance that was approved and adopted by the Corporation.

WILCON DEPOT, INC.
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Signed:

BERTRAM B. LIM
Chairman of the Board

LORRAINE BELO-CINCOCHAN
President-CEO